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ABSTRACT

The document presents an adult farmer course in farm finance. It was developed especially for teaching adults employed in agriculture in Kentucky. Because of the diversity of age, expertise, and experience levels of class members and instructors, the unit was designed to cover the basic areas of farm finance. Six lessons have been included which may be modified or expanded to suit each particular course. Lessons are in outline form with the major headings of objective, problem analysis, content, and suggestions for teaching the lesson. Supplementary material in the form of illustrations and charts is provided. Appended are class planning forms and a unit evaluation instrument. (Author/LJ)

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FARM FINANCE

-- A KEY TO THE FARM BUSINESS

An Instructional Unit for Teachers
of Adult Vocational Education in Agriculture

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CE 005 273

(VT 102 051)

1972

FOREWORD

Mr. Fred Chumbler, Jr., teacher of vocational agriculture at Mason County High School, brings to this publication 25 years of teaching experience -- 20 years of which included teaching young farmers and eight years of work with adult farmers in Mason County. He holds the B.S., M.S., and Educational Specialist degrees from the University of Kentucky and is active in numerous local, district, and State educational activities.

This adult-farmer course is a result of the following sequence of actions:

1) The State Advisory Committee, made up of agriculture teachers, State staff, and teacher educators from throughout Kentucky, was organized to determine needs and program direction for adult work in agriculture for the State. A major outcome of the first meeting in September, 1971, was a recommendation that more instructional materials that are specifically designed for teaching adults in agriculture be developed and distributed to teachers.

2) Subsequently, a proposal to involve experienced teachers of adults in material development was written by Dr. Maynard Iverson of the University of Kentucky and submitted for State funding. In January, 1972, a two-year, $15,000 grant was made through the Supporting Services Division, Bureau of Vocational Education, State Department of Education.

3) Six teachers were selected to produce units in the diverse areas of need during the spring and summer of 1972. Mr. Chumbler's unit, "Farm Finance," is a product of that project.

This publication, along with future materials developed specifically for the teaching of adults employed in agriculture in Kentucky, should improve the teaching of adult classes in agriculture and stimulate the initiation of additional classes.

Robert L. Kelley, Director
Agribusiness Education
Bureau of Vocational Education
State Department of Education
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ACKNOWLEDGEMENT

We are grateful to the following for their valuable assistance with the unit: Mr. W. B. Collins, Mason County Agricultural Extension Agent; Mrs. Ann H. Folmer, Trust Officer, Bank of Maysville; Mr. Willis G. Moreman, Executive Vice President, Kentucky Bankers Association, Louisville; Mr. E. R. Kelley, Jr., Maysville Office Manager, Production Credit Association; Mr. Doug Johnson, First Security National Bank, Lexington; Mr. Roy Fritz, Maysville Office Manager, Federal Land Bank; Central Kentucky PCA, Lexington; Mr. Steve Allen, Farm Management Specialist, University of Kentucky; Dr. Frank A. Pattie, Professor Emeritus, University of Kentucky; Mrs. Anne Mills, Secretary in the Department of Vocational Education, University of Kentucky; Mr. Raymond Gilmore and Mrs. Gladys Owens, Artists, Curriculum Development Center, University of Kentucky; and Mrs. Mitzi Iverson, Project Typist; Lexington.

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SUGGESTIONS FOR USING THE COURSE

This unit was developed as a guide for use by teachers in planning and conducting young farmer and/or adult farmer classes. Because of the diversity in age, expertise and experience levels of class members and instructors, the unit was designed to cover the basic areas of farm finance. Therefore, teachers should adapt those portions of the unit that are suited to their particular situation. Six lessons have been included, but the unit may be expanded to more topics or utilized in diversified courses for shorter periods of instruction. It may be helpful to involve class members at the organizational meeting in the selection of lessons and activities. Planning forms to assist in this process are found in the appendix. We highly recommend that the major teacher reference, Farm Credit Analysis Handbook, Southern Edition, be secured by anyone planning to utilize this unit.

The format used was designed to assist teachers in utilizing problem-solving and the discussion method. A teaching procedure that has been used successfully is as follows: Step 1: The teacher lists the topic (problem and analysis) on the chalkboard. Step 2: He then sets the stage for discussion with introductory facts, ideas, or comments, using items from the section on "developing the situation." Step 3: The teacher calls on the class to give their experiences, ideas, and knowledge concerning the subject. The discussion is supplemented with handouts, transparencies, models, or other inputs gathered by the teacher beforehand to help solve the problem under consideration. Resource people or films may also be used here as sources of information. (Transparency and handout masters are found at the end of each lesson in the unit). Step 4: When the facts have been brought out and a good discussion has taken place, the teacher leads the group to appropriate conclusions. These summary statements are written on the chalkboard and, in some cases, are typed up and distributed as handouts at the next meeting. Some instructors will utilize devices such as panels, exhibits and tours to reinforce the conclusions reached. (Several suggestions for supplementary enrichment activities are listed in each lesson of this unit.)

Teachers may want to utilize the wealth of resources found in each community to supplement their teaching -- local bankers, PCA representatives, and others will undoubtedly be pleased to serve as resource people, furnish samples of financial instruments, conduct tours, arrange for films and assist with other activities appropriate to the success of the course.

Each teacher using the unit is asked to complete and return the evaluation questionnaire found in the Appendix. These ratings and suggestions will be used to improve this unit as well as others developed in the future.

Our best wishes for a successful adult program.

Fred Chumbler, Jr.
Development Consultant

Maynard J. Iverson
Project Director

UNIT OBJECTIVES

The following objectives should be reached by each individual enrolled --

Major objective: To develop the effective ability of farmers to adequately finance the farm business.

Lesson objectives:

1. To develop the effective ability of farmers to see the relationship of financing to successful farming.

2. To develop the effective ability of farmers to set up a financial plan for operating a farm business.

3. To develop the effective ability of farmers to secure and use credit for operating the farm.

4. To develop the effective ability of farmers to understand and use credit terms and instruments.

5. To develop the effective ability of farmers to protect the farm business and farm family from severe risks and losses.

6. To develop the effective ability of farmers to provide for retirement and transfer of the farm business.

UNIT REFERENCES

Books

Doane's Farm Management Guide. (Doane Agricultural Service, St. Louis, Missouri). 1968. (Paperback).

*Economics of American Agriculture by Walter W. Wilcox and Willard W. Cochrane (Prentice-Hall, Inc., Englewood Cliffs, New Jersey) 1963.

*Farm Management by Lyn. Robertson (J. B. Lippincott Company, Chicago, Illinois) 1958.

Farm Management Economics by Earl O. Heady and Harold R. Jensen (Prentice-Hall, Inc., Englewood Cliffs, New Jersey) 1961.

Farm Management Handbook by I. F. Hall and W. P. Mortenson (The Interstate Printers and Publishers, Inc., Danville, Illinois) 1961.

*Financing Farming Activities. (Farm Credit Banks of Louisville, Louisville, Kentucky). 2nd Edition, 1963. (Paperback).

Kentucky Agricultural Statistics. (U.S.D.A. Statistical Reporting Service and Kentucky Department of Markets, Louisville, Kentucky). 1971 Edition.

Tax Management Guide by John C. O'Byrne and James D. Keast (Doane Agricultural Service, St. Louis, Missouri). 1967. (Paperback).

U. S. Government Publications

U. S. Department of Agriculture (United States Government Printing Office, Washington, D. C.)

A Guide to Budgeting for the Family, Home and Garden Bulletin No. 108.

Farm Costs and Returns, Agriculture Information Bulletin No. 230.

Farm Operating Loans, Farmers Home Administration Pamphlet - 1002.

Farm Ownership Loans, Farmers Home Administration Program Aid - 62.

Family-Farm Records, Farmers' Bulletin No. 2167.

*These entries were cited in the unit.

*Handbook of Agricultural Charts - 1971, Agriculture Handbook No. 423.

The Balance Sheet of the Farming Sector 1970

U. S. Department of Health, Education and Welfare, Social Security Administration, (U. S. Government Printing Office, Washington, D. C.)

Farm Rental Income

Farmers . . . How to Report Your Income for Social Security

If You're Self-Employed . . .

Self Employed Farmers . . . Are You Getting Your Social Security Credit?

Social Security Benefits . . . How You Earn Them

Social Security Information For Young Families

*Your Social Security

Cooperative Extension Publications

A Guide to Father-Son Farming Arrangements by H. M. Young, Jr., Circular 463, College of Agriculture and Home Economics, University of Kentucky.

Family Farm Transfer Special Bulletin 436, Agricultural Experiment Station, Michigan State University, East Lansing.

Farm Planning Manual for Kentucky Farmers by Allen and Browning, (Department of Agricultural Economics, University of Kentucky, College of Agriculture, Cooperative Extension Service) 1970.

Production Potentials for Kentucky Commercial Agriculture by the Production Potential Study Committee, Cooperative Extension Service, University of Kentucky.

Trends in Kentucky Agriculture, Ky. Bulletin 653.

American Bankers Association Publications (The American Bankers Association, 90 Park Avenue, New York, New York)

* Farm Credit Analysis Handbook - Southern Edition by The Agricultural Committee, 1966.

Money and You

Personal Money Management

*These entries were cited in the unit.

The Story of American Banking

Using Bank Services

You and Your Bank

Vocational Agriculture Service Publications (VAS, University of Illinois, Urbana, Illinois.)

Credit Instruments, VAS 2034.

Determining Credit Needs on the Farm, VAS 2025a.

Factors Involved in the Borrowing Process, VAS 2028.

Planning for Repayment of Loans, VAS 2026a.

Sources of Farm Credit, VAS 2027.

Using Credit to Increase Farm Earnings, VAS 2024a.

Using Farm Real Estate Loans, VAS 2033.

Other Publications

"A Course of Study for Adult Farmer Instruction in Farm Management and Farm Business Analysis" by Palan and Persons, University of Minnesota.

Magazines

Doane's Agricultural Report (Doane Agricultural Service, Inc., St. Louis, Missouri) October 1, 1969 and other issues.

*Farmer's Digest (Brookfield, Wisconsin), June-July, 1972.

Films

(United States Department of Agriculture Motion Picture Services, Office of Information, Washington, D. C. 20250)

"Credit to Grow on"
"Credit Where Credit is Due"
"Turning Point"

*These entries were cited in the unit.

INTRODUCTORY MATERIAL

Farming is a business. The financing of the farm business is important and will be increasingly important in the future.

Each year farmers' purchases include[1]:

- -$5 billion in new equipment, machinery and motor vehicles.
- -$4.2 billion for fuel, lubrication, and maintenance of machinery and motor vehicles.
- -$7.9 billion for seed and feed.
- -$2.1 billion for fertilizer and lime.
- -About 7% of all rubber used in the United States.

Farming is big business. Agriculture's assets total $317 billion, equal to:

- -About two-thirds of the value of capital assets of all corporations in the United States, or
- -About one-half the market value of all corporation stocks on the New York Stock Exchange.

For every farm worker, farmers have $54,000 invested -- twice the average invested per worker by other businesses.

Looking ahead to 1980, it is predicted that[2]:

- -The nation's farms will have to produce 30 per cent more food to meet the demands of our increasing population.
- -To meet this demand for greater production farmers will use more machines and equipment and better business methods.
- -Farms will use more money, invest more in equipment, borrow more, keep better accounts.
- -Added capital the farmer will need for modern farming he will obtain by borrowing. He must learn to manage his farm finances so that he can make more money by using borrowed money.
- -There will be fewer individual incomes and living standards of farm people will be higher in relation to other occupational groups than they are now.

---

[1] Farmer's Digest, June-July, 1972. pp. 7-8.

[2] Financing Farming Activities, p. 3.

-Along with more money and better financial methods the farmer of the future will enjoy more of the things money will buy -- a better home, more conveniences, more contact with business enterprises, a larger place in the life of his community.

When a farmer buys goods or services, he uses either cash or credit. When he uses cash he gives the seller money -- or a check as evidence of that money -- at the time of the sale. When he uses credit, he agrees to pay for the goods or services at a later date. Hence, credit is a means of obtaining goods, services, or money in exchange for a promise to pay at some future date.

Credit should be used for a productive purpose, but it is also important that it be used at the appropriate time, in the correct amount, and over the correct periods of time.

Borrowing for productive purposes is a sign of good management. Commercial banks, Federal Land Bank, Production Credit Association, Farmers Home Administration, insurance companies, and individual lenders are the chief sources of farm credit.

Lesson 1

RELATIONSHIP OF FINANCING TO SUCCESSFUL FARMING

Objective -- To develop the effective ability of farmers to see the relationship of financing to successful farming.

Problem and Analysis -- What is the relationship of financing to success in farming?

-Meaning of financing
-Effect on growth and development of an enterprise or business
-Necessity for the business to be sound in order to be financed
-Obligation to financial source
-Benefits derived from financing

Content -- (technical subject matter for teacher preparation)

I. Meaning of financing: management skill which

A. Provides the capital to operate a business or enterprise including
1. Land
2. Buildings
3. Equipment
4. Livestock
5. Feed, seed, fertilizers, insecticides
6. Others -- hired labor, fencing, etc.

B. Involves the use of earnings, savings, and credit
1. Determining earnings and savings available
2. Short-term credit
3. Intermediate-term credit
4. Long-term credit

C. Serves as a means of supporting a business until it pays its own way
1. Gross returns per year
2. Total costs per year
3. Available income per year

II. Effect on growth and development of a business

A. Factors directly related to adequate financing
1. Size of the business
2. Efficiency of the business

B. Input factors are largely determined by ability to finance them
   1. Quality of livestock
   2. Proper feeding of livestock
   3. Fertilizer, herbicides, insecticides for crops
   4. Adequate machinery for cropping programs

C. Liberal use of input factors necessary for successful farming
   1. Adequate size of business
   2. Numbers and quality of livestock
   3. Balanced rations for livestock
   4. Adequate nutrients for crops
   5. Insect and weed control
   6. Sufficient machinery and equipment needed to do the job

III. Necessity for business to be sound in order to be financed implies that

A. Capital, resulting from earnings of the farmer, will be used for:
   1. Family living expenses
   2. Operating capital ("annual" costs)
   3. Working capital (livestock, machinery, etc.)

B. Capital, resulting from earnings of others, will be used (borrowed)
   1. Durable capital (land, buildings, fences, etc.)
   2. Working capital
   3. Operating capital

C. Soundness of the business determines the extent to which financing can be secured
   1. Farm records
   2. Financial records
   3. The man
   4. Plan

D. Cost of financing is directly related to soundness of business
   1. Annual crop and livestock projections
   2. Budget

IV. Obligation to the source of finances -- the manager will:

A. Recognize obligation to the source of financing
   1. Keeping records
   2. Using records
   3. Management decisions

B. Not unreasonably risk the earnings and savings of self or others
   1. Volume of business
   2. Efficiency

3. Enterprise organization
4. Basic ratios
5. Comparative analysis

C. Use projections
1. Crop projections
2. Livestock projections

D. Use budgeting
1. Cash flow
2. Family budget
3. Farm budget
4. Projected profit and loss statement
5. Distribution of profits

V. Benefits derived from sound financing:

A. Promotion of good farming
1. Volume of business
2. Economical units
3. Balance of enterprises
4. Wise land use

B. Provision of a fair return to owners of capital on their earnings and savings
1. Increased standard of living
2. Better education for children
3. Increased luxuries

C. Enabling farmers to operate at maximum efficiency and earn a fair return
1. Efficient use of land and labor
2. Efficient use of livestock units and feed crops

D. Provision of food and fiber for society in abundance and at a reasonable cost
1. Crops
2. Livestock and livestock products
3. Improved family living

Suggestions for teaching the lesson, in terms of:

I. Developing the Situation

A. Things to be brought out by the teacher (Introduction to the lesson)
1. To be successful in farming, adequate financing is a key to success. It is an integral part of farm management.
2. Farmers use large amounts of capital to own their land, buildings, equipment, livestock, and other things. (See Masters 1 and 2, end of lesson.)

3. Farmers use the following kinds of credit to finance the farm business:
   --Short-term credit for year-to-year farm production
   --Intermediate-term credit for larger production or capital outlays
   --Long-term credit for farm ownership
4. A proper balance between short-term and long-term credit should be maintained.
5. Expanded size and new techniques contribute to increased efficiency but require additional investment of capital.
6. Farm planning and farm improvements inevitably lead to problems of financing.

B. Things to be brought out by the class members:
1. Their idea of size and types of farm business for successful operation.
2. Size and types of business they now have.
3. Plans for expansion.
4. Whether they use credit.
5. Types of credit used and sources of this credit.
6. Data from financial statement. (See handout at end of lesson.)

II. Conclusions

A. With adequate finance, farm incomes can be increased; we need to plan for the development of adequate finance in our farm businesses.

B. Capital used in financing may be available from the operation or may be secured from others (credit).

C. Sound financing involves an obligation to the sources of capital whether it is provided by us or by others.

D. A sound business is a prerequisite for proper financing.

E. Good financing is beneficial to society as well as to those who provide the capital.

III. Enrichment Activities

A. Use individuals such as bankers, FHA representatives, PCA managers, top farmers, etc., to discuss farm finance.

B. Have each member outline the amount of capital invested in his operation.

C. Have each member outline the increase in capital needed for a more efficient business.

IV. Suggested teaching materials

A. References for Lesson 1

1. Doane's Farm Management Guide, Chapter 3.
2. Financing Farm Activities, Chapter 1.
3. Farm Credit Analysis Handbook, Part 1.
4. Farm Management, pp. 8, 41, 315-18, 328.
5. 1971 Handbook of Agricultural Charts, pp. 10, 15.
6. Farmers Digest, (June-July, 1972), pp. 7-9.
7. Trends in Kentucky Agriculture, Ky. Bulletin 653.

B. Resource Personnel

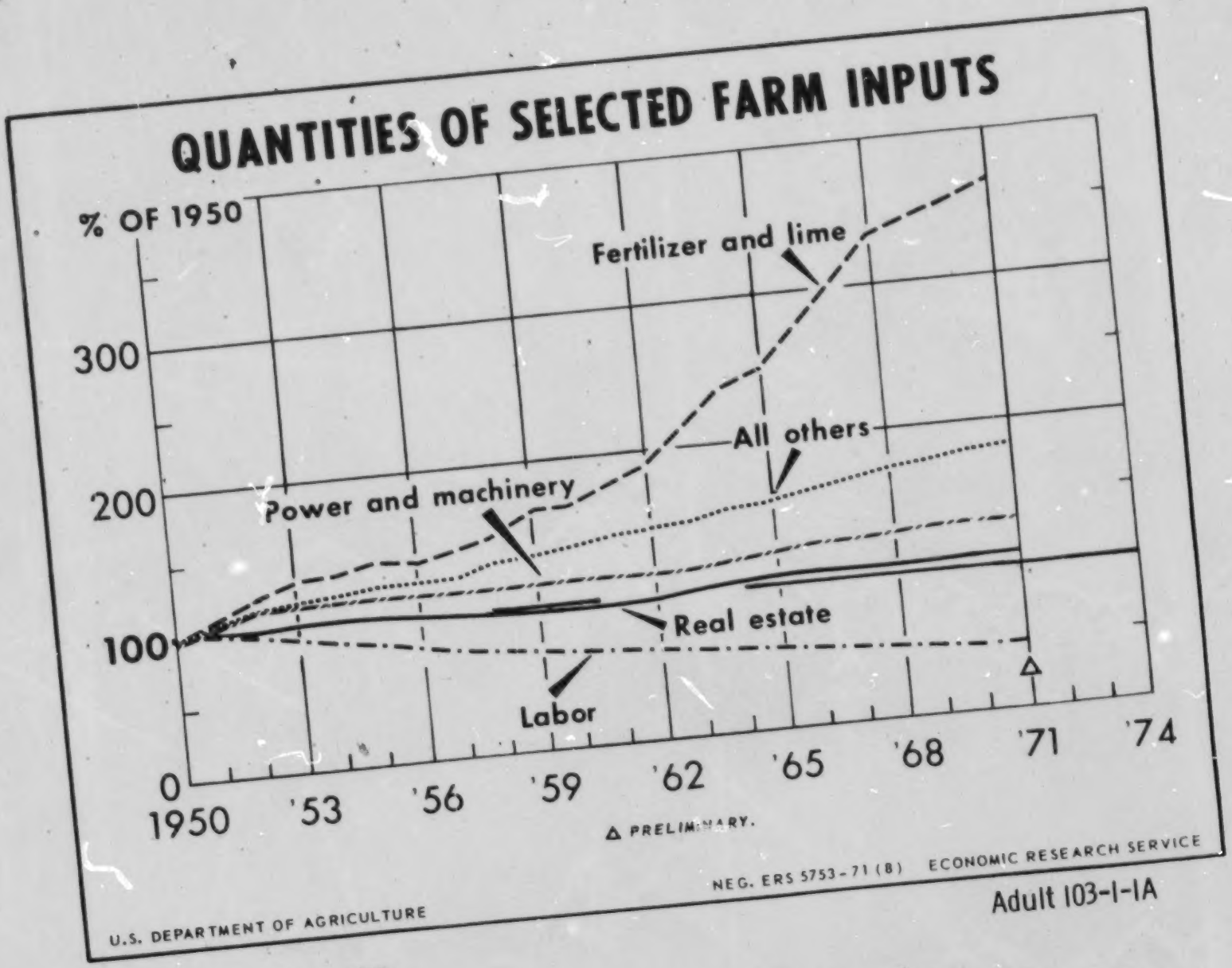
1. Cooperative Extension Farm Management specialists
2. Federal Land Bank personnel
3. PCA personnel
4. Local bankers
5. Farmers and farm managers
6. For specific personnel see: VoAg Directory of Resource People in Kentucky

C. Audio Visuals

1. Masters*
   - -1A Quantities of Selected Farm Inputs (chart)
   - -1B Quantities of Selected Farm Inputs (table)
   - -2A Farm Real Estate Taxes (chart)
   - -2B Farm Real Estate Taxes (table)
   - -3 Financial Statement (worksheet)
2. Slides

   NOTE: The USDA charts and tables used in this unit are available in color slides from the Department of Vocational Education on a free loan basis.

*Masters are keyed to units and lessons, and are numbered consecutively. The code number appears in the lower right hand corner. Master "Adult 103-1-1A" indicates: adult unit number 103, lesson 1, item 1, part A.


QUANTITIES OF SELECTED FARM INPUTS
% OF 1950
300
200
100
0
1950
'53
'56
'59
'62
'65
'68
'71
'74
Fertilizer and lime
All others
Power and machinery
Real estate
Labor
△ PRELIMINARY.
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Adult 103-1-1A

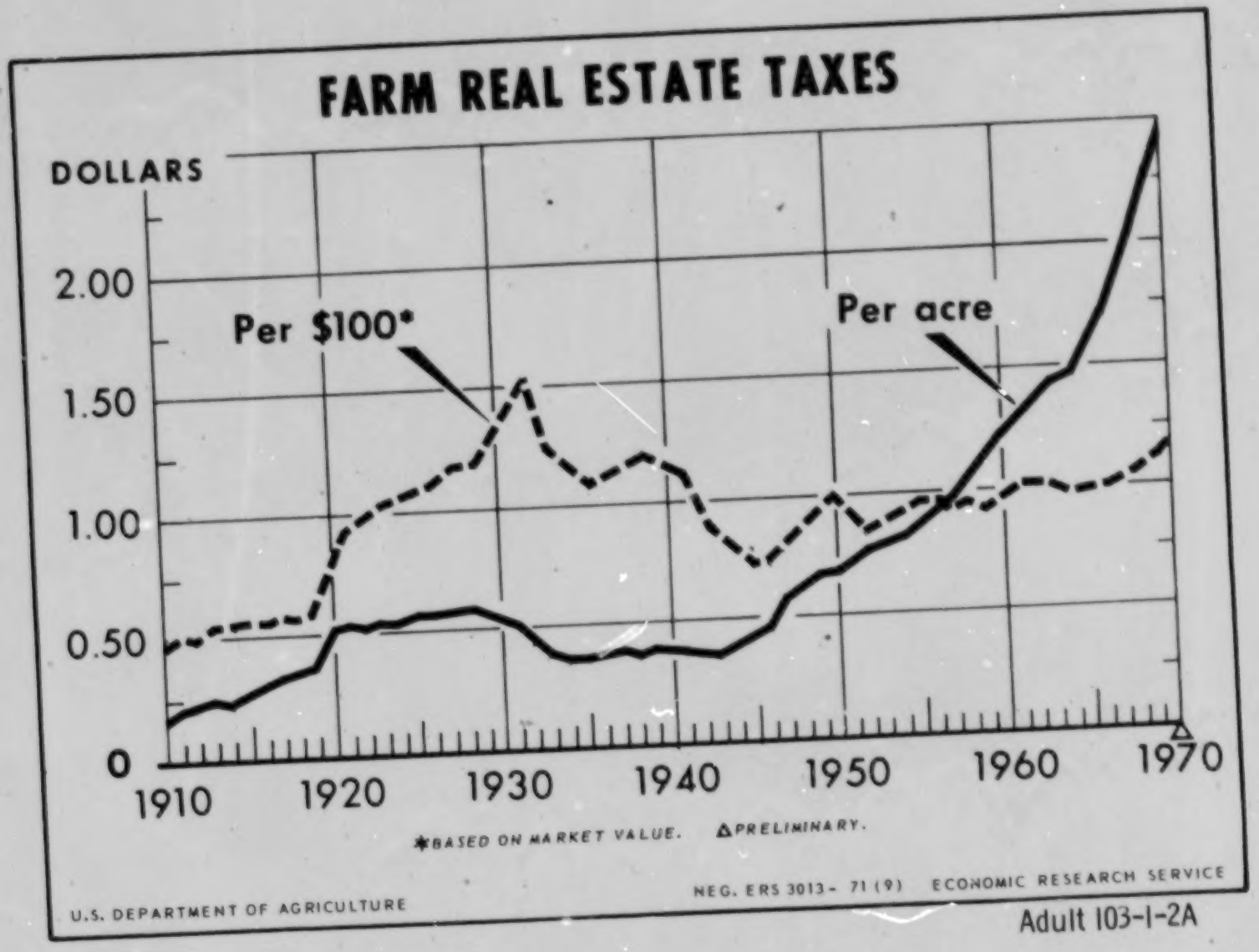
Quantities of selected farm inputs, 1950-70

(1950=100)

Year	Labor	Farm, real estate	Mechanical power and machinery	Fertilizer and liming materials	All other inputs
1950	100	100	100	100	100
1951	100	101	106	112	104
1952	96	100	113	122	107
1953	92	101	114	131	108
1954	88	102	114	134	109
1955	85	102	115	141	113
1956	80	100	115	138	116
1957	75	100	114	144	115
1958	72	99	115	150	121
1959	70	99	116	169	127
1960	67	98	115	169	129
1961	65	98	114	181	134
1962	62	99	115	194	137
1963	60	101	116	219	139
1964	58	103	118	238	143
1965	55	104	122	250	145
1966	51	104	127	281	151
1967	50	105	127	312	157
1968	48	105	129	334	163
1969	49	106	130	344	165
1970	46	107	130	353	170
1971[1]	47	107	130	368	171

[1] Preliminary.

Adult 103-1-1B



Adult 103-1-2A

Farm real estate taxes, selected years

Year	Taxes	
	Per acre	Per $100 market value
	Dollars	*Dollars*
1920	0.51	0.79
1930	.57	1.31
1940	.39	1.18
1950	.69	1.00
1960[1]	1.22	.97
1961	1.29	1.02
1962	1.36	1.02
1963	1.41	1.01
1964	1.47	.99
1965	1.57	1.00
1966	1.70	1.00
1967	1.84	1.02
1968	2.05	1.06
1969	2.27	1.12
1970[2]	2.47	1.18

[1] 1960 on includes Alaska and Hawaii.
[2] Preliminary.

Adult 103-1-26

FINANCIAL STATEMENT*

Name_____ Date_____

Address_____

ASSETS

Current	
Cash on Hand	$_____
Cash on Deposit	_____
Notes Receivable	_____
Accounts Receivable	_____
Livestock Held for Sale	_____
Crops Held for Sale & Feed	_____
Cash Investment in Growing Crops	_____
Securities (Marketable)	_____
Cash Value of Life Insurance	_____
Other (Specify)_____	_____
Total Current	_____
Intermediate	
Auto and Trucks (Net)	$_____
Machinery and Equipment (Net)	_____
Breeding & Dairy Livestock	_____
Securities (Not Marketable)	_____
Other (Specify)	_____
Total Intermediate	_____
Fixed	
Farmland	$_____
Farm Improvements (Net)	_____
Non-Farm Real Estate	_____
Household Furnishings	_____
Other (Specify)_____	_____
Total Fixed	_____
TOTAL ASSETS	$_____

LIABILITIES

Current	
Notes Payable to Bank	$_____
Notes Payable to Relatives	_____
Notes Payable to Others	_____
Accounts Payable	_____
Portion of Intermediate-Term Debt Due Within 12 months	_____
Portion of Long-Term Debt Due Within 12 months	_____
Rent, Taxes & Interest Due and Unpaid	_____
Loans Against Cash Surrender Value of Life Insurance	_____
Other Debt Due Within 12 months	_____
Total Current	_____
Intermediate-Term	
Notes Payable to Bank	$_____
Notes Payable to Others	_____
Total Intermediate-Term	_____
Long-Term	
Mortgages on Farm Real Estate (Less portion applied to current liabilities)	$_____
Mortgages on Other Real Estate (Less portion applied to current liabilities)	_____
Other (Specify)	_____
Total Long-Term	_____
Total Liabilities	_____
Net Worth	_____
Total Liabilities & Net Worth	_____

General Information

1. Insurance
   a. Real and Personal Property_____
   b. Liability_____
   c. Workmen's Compensation_____
   d. Other_____
2. Taxes
   a. Personal Property $_____ c. Income $_____
   b. Real Estate _____ d. Other _____

*Source of Information for this form: Farm Credit Analysis Handbook, Part I.

Lesson 2

DEVELOPING A FINANCIAL PLAN FOR OPERATING A FARM BUSINESS

Objective -- To develop the effective ability of farmers to set up a financial plan for operating a farm business.

Problem and Analysis -- How can we set up a sound plan for financing a farm business?

-Arranging for long-term financing of capital goods
-Determining the needs for short-term financing in production
-Estimating the current operating expenses
-Estimating family living expenses
-Summarizing the budget

Content

Introduction -- Long-range planning is very important for financing the farm business. The rapid pace in new farming developments makes it necessary to keep plans flexible. These new developments may involve changing plans from time to time in order to accomplish our goals in a more efficient manner.

A well-planned operation forms the foundation of a profitable business. It is easier to borrow when we can show why we need the money, and how, where and when we will use it.

Annual planning should include projections of the crop and livestock program, cash flow schedule, and financial results of the operation in terms of anticipated profit or loss.

I. Arrangements for long-term financing include:

A. Real Estate
1. Rental agreements
2. Leases
3. Land-purchase contracts

B. Machinery
   1. Leasing
   2. Purchasing
   3. Custom service

II. Needs for short-term financing include:

A. Machinery and Equipment
   1. Repair
   2. Replacement
   3. Additional needs

B. Crops
   1. Seeds and fertilizer
   2. Insecticides, etc.
   3. Hired labor

C. Livestock
   1. Purchase
   2. Feed
   3. Housing
   4. Equipment

III. Estimates of current operating expenses cover:

A. Crops
   1. Seed
   2. Fertilizer
   3. Chemicals
   4. Machinery operating cost

B. Livestock
   1. Beginning inventory
   2. Purchases needed
   3. Sales anticipated
   4. Death losses expected

IV. Estimating a family budget involves:

A. Household operation
   1. Food
   2. Furniture and equipment
   3. House repairs and rent
   4. Clothing
   5. Entertainment, recreation, and education
   6. Medical care and drugs
   7. Contributions
   8. Auto expenses
   9. Other

B. Additional family necessities
   1. Life insurance
   2. Income tax
   3. Social Security
   4. Other

V. Budget Summary includes:

A. Receipts
1. Operating
2. Sales
3. Other income

B. Obligations
1. Operating expenses
2. Capital expenses
3. Family expenses
4. Debt payment
5. Other

C. Balance

Suggestions for teaching the lesson, in terms of:

I. Developing the Situation

A. Things to be brought out by the teacher:
1. Success in operating a farm depends upon the farmer's ability to have operating funds on hand when he needs them.
2. The combination crop and livestock farmer may need partial financing during the year.
3. Long-range plans are of utmost importance to sound finance.
4. Short-range plans are necessary to reach long-range goals.
5. It is necessary to plan the amount and timing of funds needed throughout the year in order to borrow, if necessary, and determine the farm's ability to repay.
6. The preparation of an annual budget is necessary in order to analyze in detail the projected receipts and expenditures and arrive at a complete financial analysis.

B. Things to be brought out by the class members:
1. Financial plans made in the past.
2. Their ideas of plans needed for sound finance.
3. Time of the year funds are most needed.
4. Amount of capital required for family living.
5. Kinds of enterprises that require largest amount of capital.

II. Conclusions

A. The necessary size and capital needs of modern farming are making it increasingly difficult for young men to acquire ownership of all the things involved in a farm business.

B. In setting up a sound plan for long-term financing, borrowing is usually a necessity.

C. Off-farm capital must be used, particularly for long-term financing needs, such as real estate and the larger machinery investments. We should consider handling these costs through rental agreements, leases, and contracts.

D. Short-term capital is needed to finance certain enterprises through the production cycle. For such enterprises as livestock feeder programs the amount of capital needed is quite large.

E. A financial plan should be developed which includes annual projections of: crop and livestock program, cash flow schedule, family budget, and financial results of the operation in terms of anticipated profit or loss.

F. When ways of meeting the financial needs of a farm business have been decided upon, the farmer should prepare a financial statement showing assets and liabilities.

III. Enrichment Activities

A. Discussion of a "sound financial plan" by a local banker, PCA official, or FHA representative. (May be conducted as a panel, making use of leading farmers.)

B. Have each member develop a financial plan according to forms included at end of lesson.

C. Secure a copy of completed plan in use by a local farmer or one provided by local commercial bank, PCA, or FHA office.

IV. Suggested Teaching Materials

A. References for Lesson 2
1. Doane's Farm Management Guide, Chapter 3.
2. Farm Credit Analysis Handbook, Part III.
3. 1971 Handbook of Agricultural Charts, pp. 2, 3, 4, 5, 21, 63, 64.

B. Resource Personnel
1. Local banker
2. Federal Land Bank Manager or Director
3. Production Credit Association Manager or Director
4. Agricultural Extension Farm Management Specialist
5. A successful farmer
6. For specific personnel see: VoAg Directory of Resource People in Kentucky.

C. Audio-Visuals

1. Masters

-1A - 1D Procedures for Completing the Annual Budget Forms (handout)

-1E - 1L Annual Budget (worksheet)

-2A Farm Income Components (chart)

-2B Components of Farm Income, 1957-70 (table)

-3A Disposable Personal Income Per Capita (chart)

-3B Disposable Personal Income Per Capita (table)

-4A Realized Net Income Per Farm by Sales Classes (chart)

-4B Realized Net Income Per Farm by Sales Classes (table)

-5A Farms, Cash Receipts and Net Income by Sales Classes (chart)

-5B Farms, Cash Receipts and Net Income by Sales Classes (table)

-6 Prices Received by Farmers (chart)

-7 Farm Prices (chart)

-8 Land Ownership in the 50 States (chart)

-9 Land Use in the 50 States (chart)

-10 Cost of Raising a Farm Child . . .(chart)

-11 "Minimum Level" Clothing Budgets . . .(chart)

-12 Percent of Diets Below 2/3 RDA, 1965-66 (chart)

Procedures[1] for Completing the Annual Budget Forms[2]

Section I -- Fertilizer and Other Crop Costs

1. List the crops to be grown in each field, the field number, its acreage and estimated yield. Compute total production by multiplying the acres by the estimated yield.

2. In the Fertilizer Column, list the analysis, the rate per acre, and the tonnage required.

3. In the Seed Column, list the varieties and the quantity needed.

4. In the Chemicals Column, list the chemicals, the rate of application per acre, and the total amount needed.

5. In the lower table, list fertilizer, seeds, chemicals, and power and machinery costs in the appropriate columns. State the amount required, the month when needed, and the cost. If costs are shared by the landlord, include only the operator's share of the cost in the cash budget.

Section II -- Crop Usage and Feed Requirements

1. In the first column, list all grain and feed crops.

2. In the second column, list beginning inventories of all crops.

3. In the third column, list the amount of crops to be produced in the current year. These figures can be taken from the fifth column of Section I.

4. Lines 7 through 12 are used to compute feed requirements. If the livestock program is relatively stable, the livestock may be grouped by livestock enterprise. Divide corn into old and new crop, since it may be necessary to buy old corn before the new crop is harvested.

5. If purchases are necessary, list them by quantity and date.

6. Add the beginning inventory, production, and purchases, and enter the sum in the Total Column.

---

[1] Source of information for these procedures: Farm Credit Analysis Handbook, Part III.

[2] The Annual Budget Forms follow these procedures (masters 1E-1L)

7. In the Farm Use column, enter grain used for feed and seed.

8. Subtract the seed and feed from totals and enter the quantity of each crop that is available either for sale or for ending inventory.

Section III -- Livestock Plan

1. List animals by kind in the first column.

2. Enter the number and value of each kind of livestock in the Beginning Inventory column. For market livestock you may wish to list weight in the Kind column.

3. In the Purchase column, identify all purchases as Capital or operating, then enter dollar cost and the month of purchase. If market livestock are transferred to breeding stock, list them as Capital, but do not enter the cost, since it is an internal transaction. Arrows will help to identify all such transfers.

4. Show the livestock to be produced from the breeding herd in the Raised Number column. In the Beginning Inventory column, also circle the number of sows, cows, or ewes to produce the number raised.

5. In the Sales column, identify all sales as capital or operating, then enter dollar sales and the month of the sale. Market animals transferred to breeding stock are identified by number and month of transfer, but no dollar amount is entered in Sales column.

6. Calculate Ending Inventory figures by adding purchases, transfers, and raised numbers to the beginning inventory and subtracting all sales. Allow for normal death loss in calculations. Show number and values in Ending Inventory. You may wish to note the weight of market livestock in the margin.

7. List milk, egg, or wool sales by value in dollars per budget period (or monthly).

Section IV -- Cash Flow Sheet

The cash flow sheet includes operating sales, capital sales, operating expenses, capital expenditures, family expenditures, money borrowed, and repayment of borrowed money. These figures are summarized by months to determine the flow of cash for the farm and family. A cash flow sheet will help a farmer estimate the amounts and timing of his credits as well as the availability of repayment funds. Farmers with adequate capital of their own can make profitable use of a financial budget to plan more adequately an investment program.

To prepare a cash flow sheet (1) take estimates of operating sales and capital sales from the Crop Usage and Feed Requirements and Livestock Plan (Sections I and II) and enter them in the proper month; (2) take livestock, feed, fertilizer, seed, and chemical purchases, as well as power and machinery costs from the operating budgets (Sections I, II, III); (3) estimate other receipts and expenses from the previous year's farm account record book, making adjustments for expenses that will change with changes in the farm operation; and (4) compute totals for lines, 4, 7, 24, and 28.

Section V -- The Family Budget

If the farm family has kept family account records, they will be able to complete with little difficulty lines 29 through 37 by months. Many families have a separate checking account for family living. Compute monthly totals on line 44 for family expenditures and non-farm business expenditures.

Section VI -- Budget Summary

Carry the monthly totals on line 4 to line 45, line 7 to line 46, line 24 to line 49, line 28 to line 50, and line 44 to line 51. Enter on line 52 payments on principal and interest for indebtedness incurred in previous years due this year. Compute totals on lines 48 and 53. Subtract line 53 from 48 to obtain cash surplus or deficit, line 54. Be careful that the correct sign precedes the difference (- if deficit and + if surplus).

A minimum cash balance should be maintained monthly when completing the budget summary. It should at least cover cash wages to labor and part of the family living expenses.

To complete the budget, add line 54 and line 55 to obtain line 56, total available dollars. Line 56 plus line 57 minus line 58 equals line 59, balance at the end of the period. The end of the month balance (line 59) becomes the balance at the beginning of the next month (line 55). Continue this procedure for each month. This procedure will indicate to you the amount needed to borrow (record on line 57), likewise the amount that can be paid on debt (record on line 58).

Accumulated borrowings for each month (line 60) are computed by adding line 57 and subtracting the principal on line 58 to the previous months' accumulated borrowings this year. When debt repayments are made, be sure to subtract the amount from line 60.

Section VII -- Projected Profit and Loss

The projected Profit and Loss Statement is for the planning year, and much of the information comes from the Cash Flow Sheet as noted on the statement. Note that interest, parts of lines 52 and 58 of the Budget Summary (Section VI), must be added to the total operating expenses (line 24, Section IV) to determine the total cash operating expenses. If there have been sales of capital items, they are found on lines 5 and 6; Purchases are found on lines 25, 26, and 27 of Section IV.

ANNUAL BUDGET*

Section I -- Fertilizer and Other Crop Costs

	Crop to be Grown	Field No.	Field Ac.	Yield	Total Production	Fertilizer Analysis	Fertilizer Rate/ Acre	Fertilizer Total	Seed Variety	Seed Quantity	Chemicals Kind	Chemicals Rate/ Acre	Chemicals Total
1													
2													
3													
4													
5													
6													
7													
8													

*Information for this form: Farm Credit Analysis Handbook, Part III.

Summary -- Fertilizer and Other Crop Costs*

	Fertilizer				Seed			Chemicals			Power and Machinery	
	Analysis	Requirement	When Needed	Cost	Requirement	When Needed	Cost	Requirement	When Needed	Cost	Requirement	Cost
9												
10												
11												
12												
13												
14												
15												
16			TOTAL			TOTAL			TOTAL		TOTAL	

34

*Information for this form: Farm Credit Analysis Handbook, Part III.

Section II -- Crop Usage and Feed Requirements

	Crop	Beginning Inventory	Production	Purchases		Total	Farm Use (Feed and Seed)	Sales		Ending Inventory
				Quantity	Mo.			Quantity	Mo.	
1										
2										
3										
4										
5										
6										

	Livestock Kind	Livestock Inventory		Corn Bu.			Supplement Tons	Hay Tons		
		Beginning	Ending	Old	New					
8										
9										
10										
11										
12	Total Feed Requirements									

Section III -- Livestock Plan

	Kind	Begin. Inv.		Purchases				Raised	Sales			Ending Inventory	
		No.	Value	Capital or Operating	No.	Cost	Mo.	No.	Capital or No. Operating	Value	Mo.	No.	Value
1													
2													
3													
4													
5													
6													
7													
8													
9													
10													
11													
12													
13													
14													
15													
16													

Section IV -- Cash Flow Sheet

	Total	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Operating Receipts													
1. Crops													
2. Livestock and Livestock Products													
3. Other													
4. Total Op. Receipts													
Capital Sales													
5. Livestock													
6. Machinery													
7. Total Capital Sales													
Operating Expenses													
8. Hired Labor													
9. Feed Purchased													
10. Seed & Plants Purchased													
11. Machine Hire													
12. Repairs (Machinery)													
13. Repairs (Bldg., Fence)													
14. Livestock Expenses (Breeding, Vet, Medicine)													
15. Fertilizer & Lime													
16. Gasoline, Oil													
17. Taxes (Real Estate, Machinery, Etc.)													
18. Insurance (Fire, Wind, Liability, Etc.)													
19. Auto (Farm Share)													
20. Electricity & Phone													
21. Rent													
22. Other Farm Expenses													
23. Feeder Livestock Purchased													
24. Total Operating Expenses													
Capital Expenditures													
25. Livestock													
26. Machinery													
27. Buildings, Fence, Etc.													
28. Total Capital Expenses													

Section V -- Family Budget

	Total	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
29. Food and Household Operating													
30. Household Equipment and Furniture													
31. House Repairs & Rent													
32. Clothing and Personal													
33. Entertainment, Recreation and Education													
34. Medical Care & Drugs													
35. Contributions													
36. Auto (Personal Share)													
37. Other													
38. Total Family Expenses													
39. Life Insurance													
40. Additions to Savings and Investments													
41. Income Tax and Social Security													
42. Non-Farm Business Expenses													
43. Total Investments and Non-Farm Business Expenses													
44. Total Family and Non-Farm Business Expenses													

Section VI -- Budget Summary

	Total	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
RECEIPTS													
45. Operating (Line 4)													
46. Capital Sales (Line 7)													
47. Other Income													
48. Total Receipts (Lines 45+46+47)													
THIS YEAR'S OBLIGATIONS													
49. Operating Expenses (Line 24)													
50. Capital Expenditures (Line 28)													
51. Family and Non-Farm Business (Line 44)													
52. Debt Payment Previous Yrs. Principal													
Obligations Interest													
53. Total This Year's Obligations													
54. Cash Deficit or Surplus (Lines 48-53)													
55. Balance Beginning of Period													
56. Total Available $ (Lines 54+55)													
57. Borrowing Necessary to Maintain $_____ Minimum Balance													
58. Debt Payment This Year's Principal													
Borrowings Interest													
59. Balance End of Period													
60. Accumulated Borrowings This Year													

Section VII -- Projected Profit and Loss Statement

Period Covered _____19__ Through _____19__

Gross Income from Sale of Livestock Products (Section IV, Line 2).....$_____

Gross Income from Sale of Crops (Section IV, Line 1).....$_____

Other Income from Farming (Section IV, Line 3).....$_____

Total Gross Receipts from Farming (Section IV, Line 4).....$_____

Total Cash Operating Expenses (Section IV, Line 24, plus Interest Expense, Section VI, Lines 52 and 58).....$_____

Net Cash Income from Operation.....$_____

Adjustment for Net Change in Inventory.....$_____

Net Operating Profit.....$_____

Adjustment for Net Change in Capital Items.....$_____

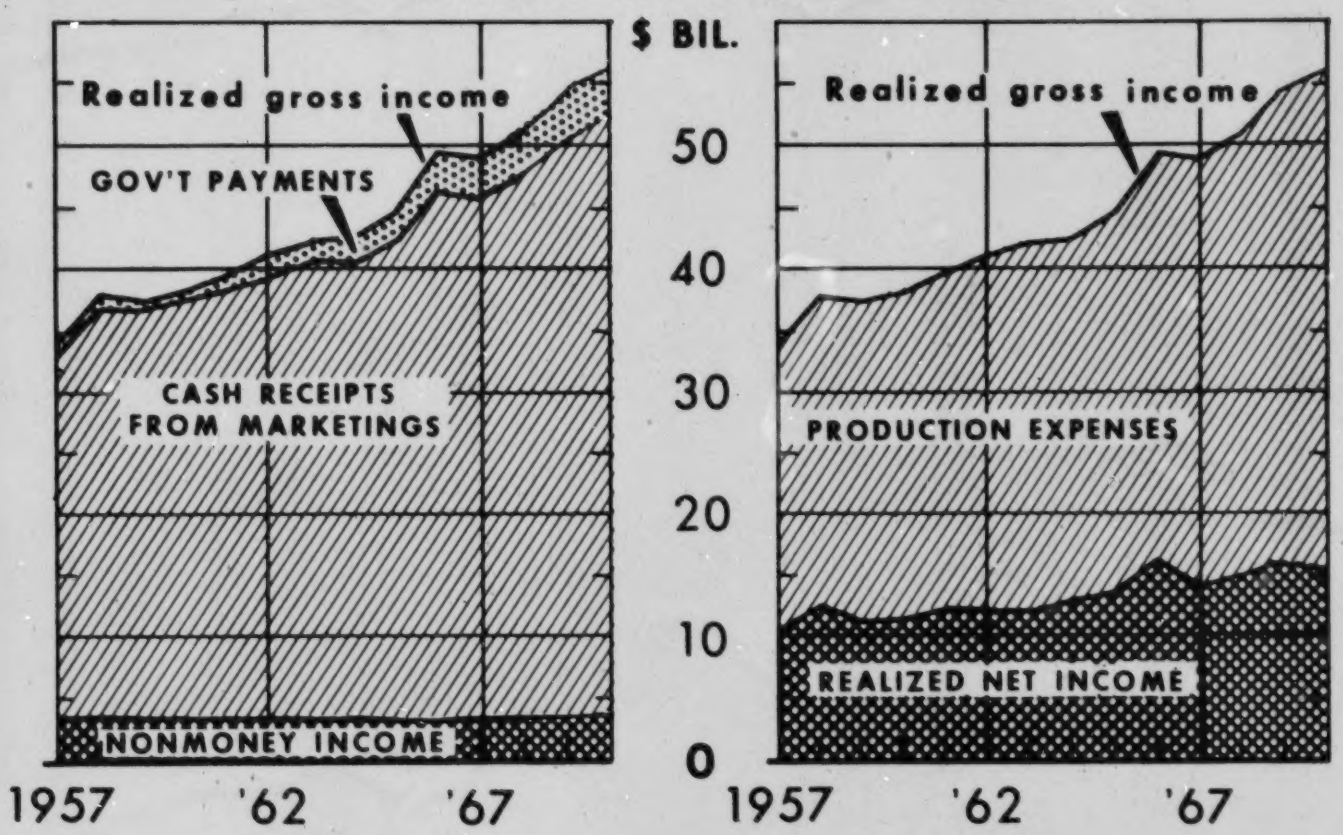
Projected Profit (Loss) from Operation.....$_____

Distribution of Profits (Estimated)

Family Living $_____ Income Tax $_____

Debt Reduction
Business Reinvestment & Savings.....$_____

FARM INCOME COMPONENTS



50 STATES STARTING IN 1960.

U.S. DEPARTMENT OF AGRICULTURE

NEG. ERS 3780-71 (8) ECONOMIC RESEARCH SERVICE

Adult 103-2-2A

Components of farm income, 1957-70[1]

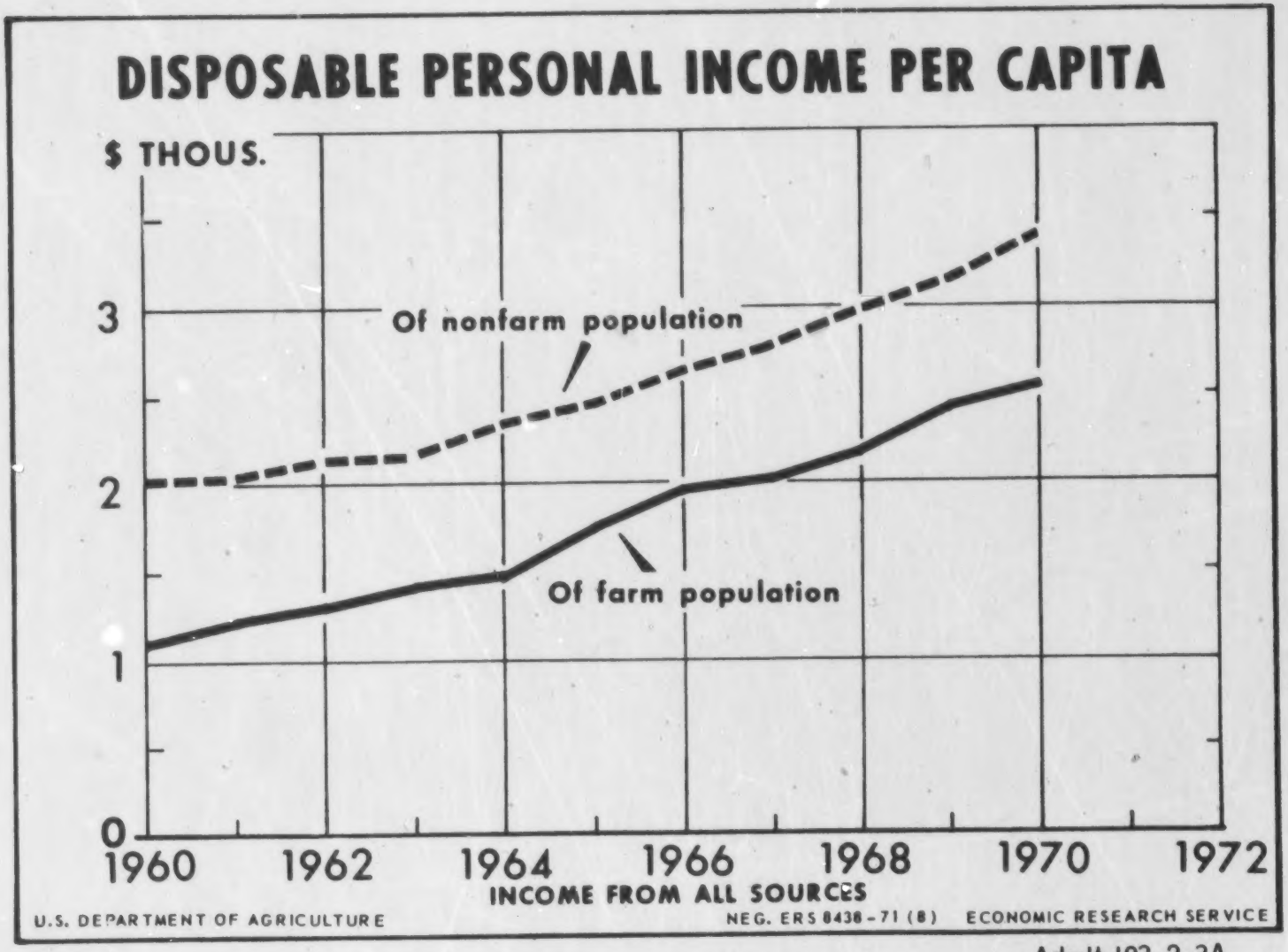
Year	Marketing receipts	Government payments	Nonmoney income	Realized gross	Production expenses	Realized net
	Billion dollars	*Billion dollars*	*Billion dollars*	*Billion dollars*	*Billion dollars*	*Billion dollars*
1957	29.7	1.0	3.3	34.0	23.3	10.7
1958	33.5	1.1	3.4	37.9	25.2	12.7
1959	33.5	0.7	3.3	37.5	26.1	11.4
1960	34.2	0.7	3.2	38.1	26.4	11.7
1961	35.1	1.5	3.2	39.8	27.1	12.6
1962	36.4	1.7	3.2	41.3	28.6	12.6
1963	37.4	1.7	3.2	42.3	29.7	12.6
1964	37.2	2.2	3.2	42.6	29.5	13.1
1965	39.3	2.5	3.1	44.9	30.9	14.0
1966	43.3	3.3	3.2	49.7	33.4	16.3
1967	42.7	3.1	3.2	49.0	34.8	14.2
1968	44.1	3.5	3.3	50.9	36.2	14.7
1969	48.1	3.8	3.6	55.5	38.7	16.8
1970	49.2	3.7	3.6	56.6	40.9	15.7

[1] Includes Alaska and Hawaii starting in 1960.

Adult 103-2-2B

Data from *Farm Income Situation,* July 1971 (ERS).
Note: Details may not add to totals due to rounding.

Source: 1971 Handbook of Agricultural Charts



Adult 103-2-3A

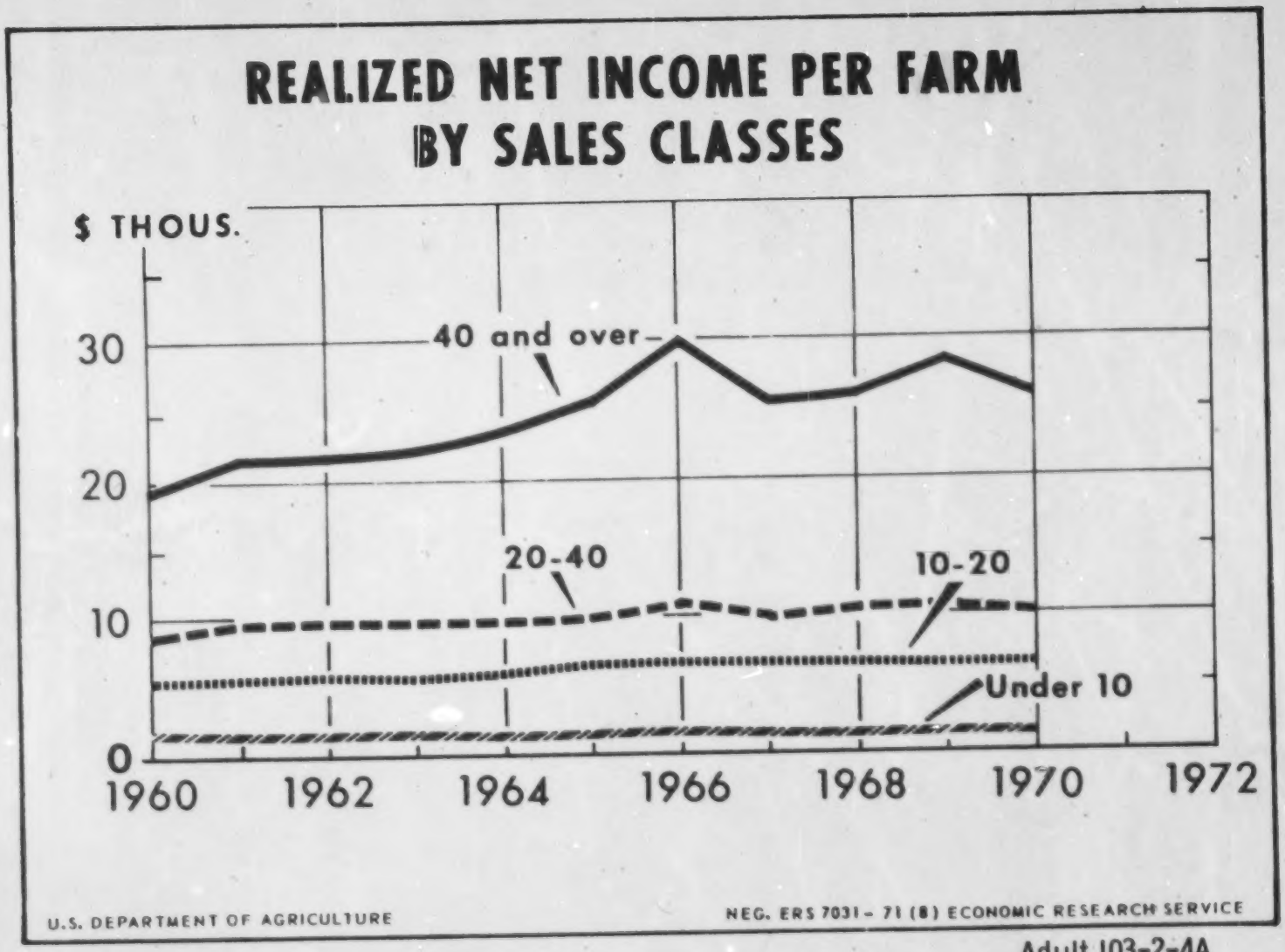
Disposable personal income per capita of farm and nonfarm population, 1960-70

Year	Income from all sources of the—			Per capita farm as percentage of nonfarm
	Farm population	Nonfarm population	Total population	
	Dollars	*Dollars*	*Dollars*	*Percent*
1960	1,100	2,017	1,938	54.5
1961	1,226	2,051	1,984	59.8
1962	1,308	2,129	2,066	61.4
1963	1,410	2,194	2,139	64.3
1964	1,462	2,343	2,288	62.4
1965	1,772	2,482	2,436	71.4
1966	1,985	2,644	2,605	75.1
1967	2,032	2,792	2,751	72.8
1968	2,193	2,987	2,946	73.4
1969	2,423	3,168	3,130	76.5
1970	2,546	3,399	3,358	74.9

Data from *Farm Income Situation*, July 1971 (ERS).

Source: 1971 Handbook of Agricultural Charts

Adult 103-2-3B



Adult 103-2-4A

Realized net income per farm, by sales classes, 1960-70

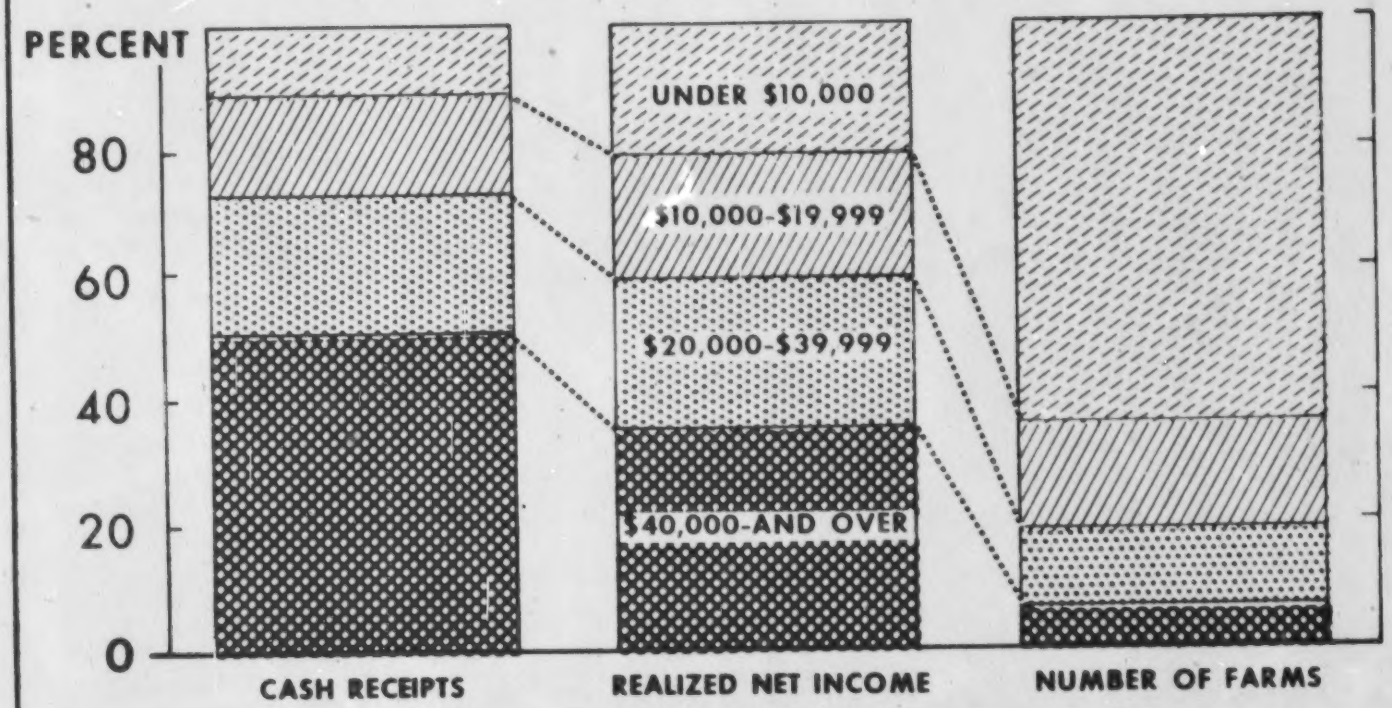
Year	Farms with sales–							
	$40,000 and over		$20,000-39,999		$10,000-19,999		Under $10,000	
	Number	Income	Number	Income	Number	Income	Number	Income
	1,000	*Dollars*	*1,000*	*Dollars*	*1,000*	*Dollars*	*1,000*	*Dollars*
1960	113	18,955	227	8,652	497	5,368	3,125	1,588
1961	123	21,309	239	9,293	494	5,739	2,965	1,676
1962	135	21,415	254	9,153	493	5,708	2,803	1,637
1963	144	21,902	267	9,061	491	5,648	2,659	1,593
1964	146	23,301	268	9,531	482	5,985	2,546	1,667
1965	160	25,451	287	9,937	487	6,199	2,406	1,683
1966	184	30,028	320	10,978	502	6,664	2,233	1,769
1967	182	25,171	317	9,817	491	6,061	2,156	1,648
1968	192	25,478	330	9,988	493	6,201	2,039	1,689
1969	216	28,668	365	10,690	510	6,588	1,880	1,779
1970	223	25,664	374	9,962	513	6,208	1,814	1,697

Data from *Farm Income Situation*, July 1971, ERS.

Adult 103-2-4B

Source: 1971 Handbook of Agricultural Charts

FARMS, CASH RECEIPTS, AND NET INCOME BY SALES CLASSES, 1970



U.S. DEPARTMENT OF AGRICULTURE

NEG. ERS 7032- 71 (8) ECONOMIC RESEARCH SERVICE

Adult 103-2-5A

Farms, cash receipts, and net farm income, by sales classes, 1970

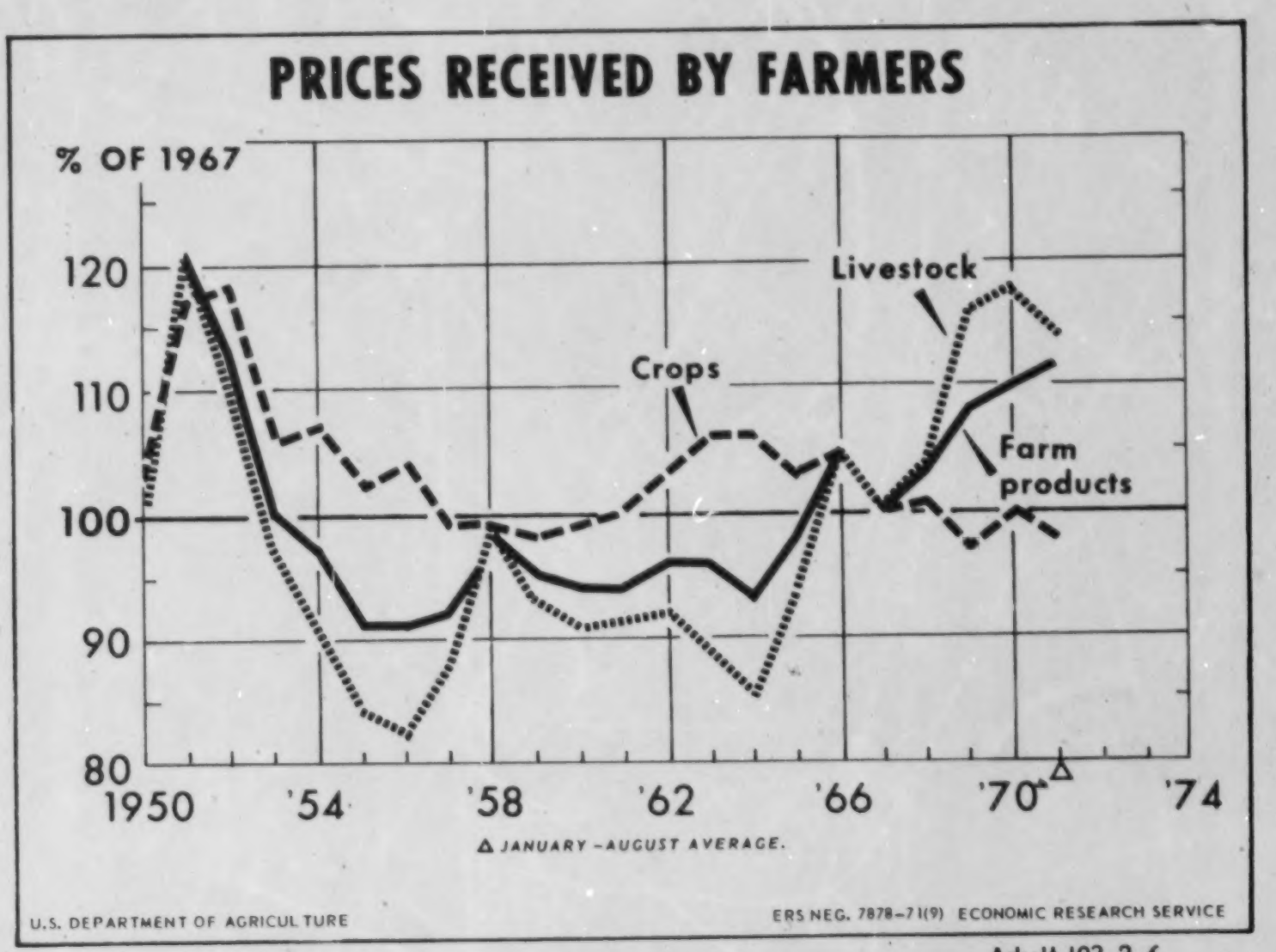
Sales classes	Cash receipts[1]		Realized net income		Farms	
	Amount	Percentage	Amount	Percentage	Number	Percentage
	Million dollars	*Percent*	*Million dollars*	*Percent*	*Thousands*	*Percent*
$40,000 and over	27,826	52.5	5,723	36.4	223	7.6
$20,000-$39,999	11,346	21.4	3,726	23.7	374	12.8
$10,000-19,999	8,259	15.6	3,185	20.3	513	17.5
Under $10,000	5,517	10.5	3,079	19.6	1,814	62.1
All farms	52,948	100.0	15,713	100.0	2,924	100.0

[1] Includes government payments.

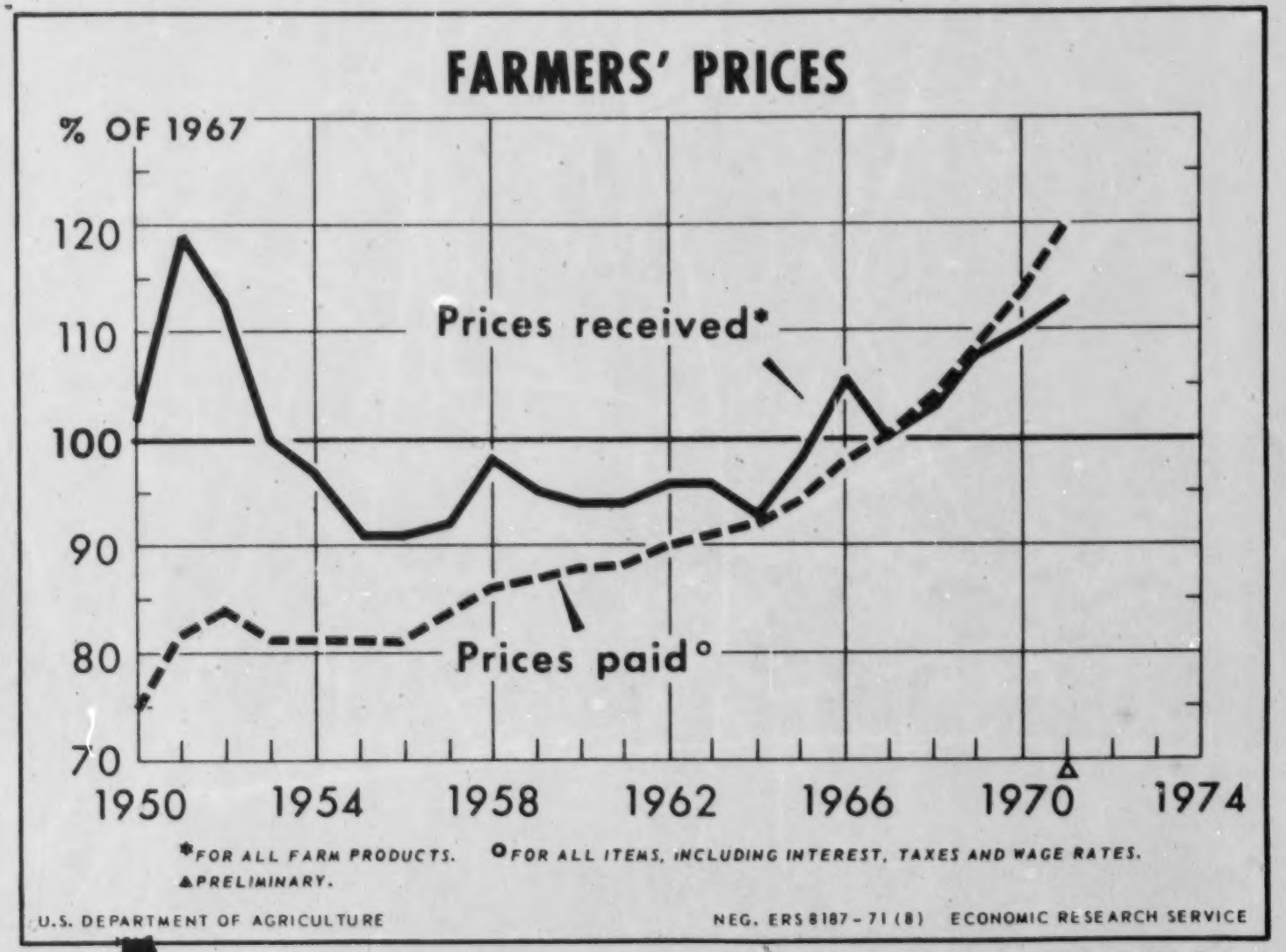
Adult 103-2-5B

Data from *Farm Income Situation*, July 1971 (ERS).

Source: 1971 Handbook of Agricultural Charts

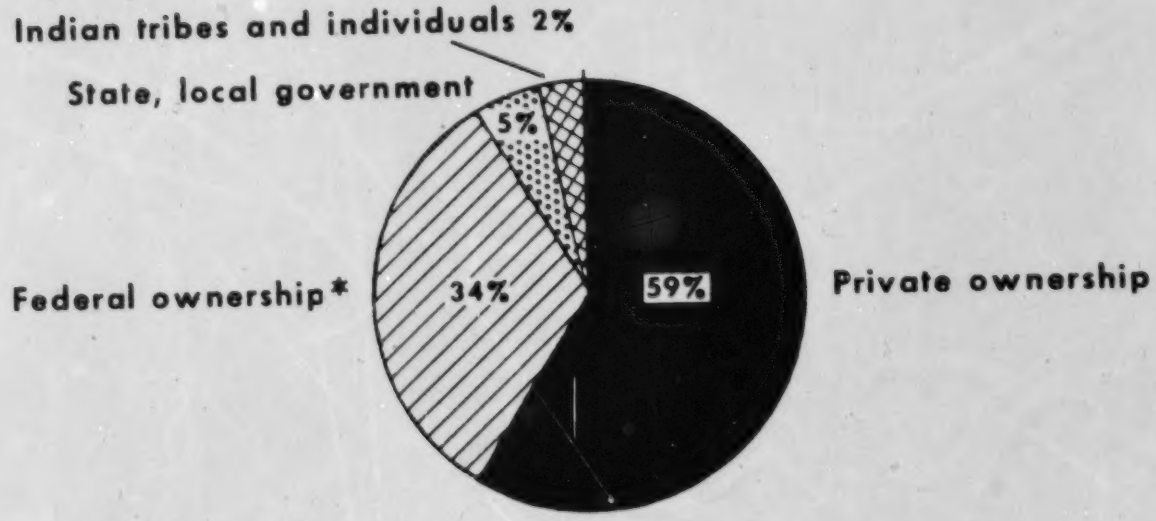

PRICES RECEIVED BY FARMERS
% OF 1967
120
110
100
90
80
1950
'54
'58
'62
'66
'70
'74
Livestock
Crops
Farm products
△ JANUARY - AUGUST AVERAGE.
U.S. DEPARTMENT OF AGRICULTURE
ERS NEG. 7878-71(9) ECONOMIC RESEARCH SERVICE

Adult 103-2-6


FARMERS' PRICES
% OF 1967
120
110
100
90
80
70
Prices received*
Prices paid°
1950
1954
1958
1962
1966
1970
1974
*FOR ALL FARM PRODUCTS.
°FOR ALL ITEMS, INCLUDING INTEREST, TAXES AND WAGE RATES.
▲PRELIMINARY.
U.S. DEPARTMENT OF AGRICULTURE
NEG. ERS 8187-71 (8) ECONOMIC RESEARCH SERVICE

Adult 103-2-7

LAND OWNERSHIP IN THE 50 STATES



TOTAL AREA, 2.3 BIL. ACRES

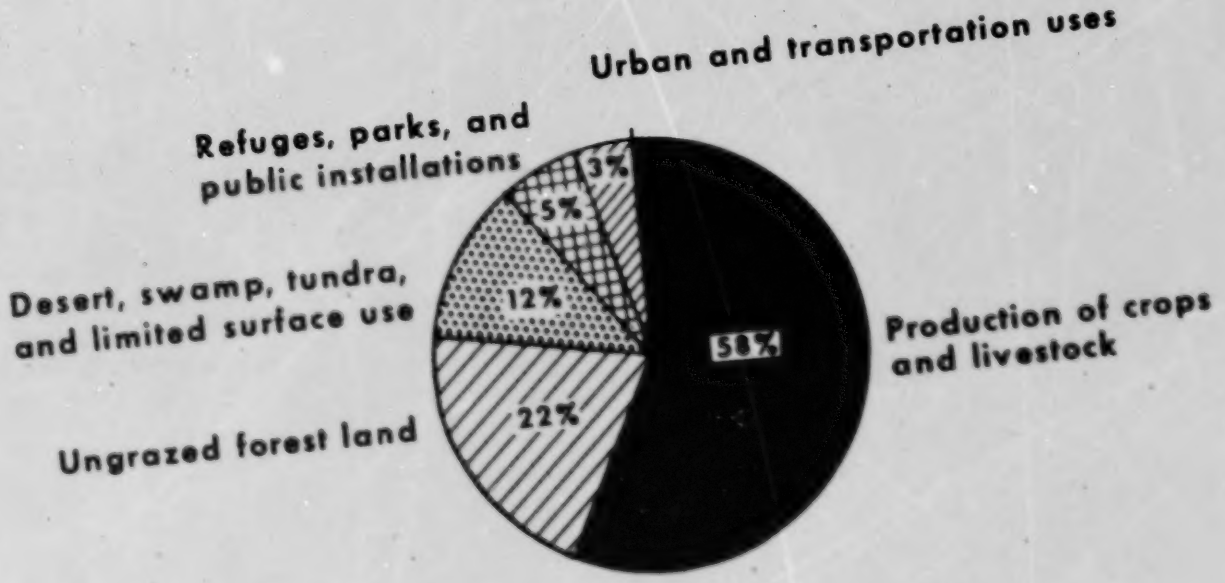
*94% IS IN THE 11 WESTERN-MOST STATES AND ALASKA. ABOUT 50% IS IN ALASKA.

U.S. DEPARTMENT OF AGRICULTURE

NEG. ERS 8433-71 (8) ECONOMIC RESEARCH SERVICE

Adult 103-2-8

LAND USE IN THE 50 STATES



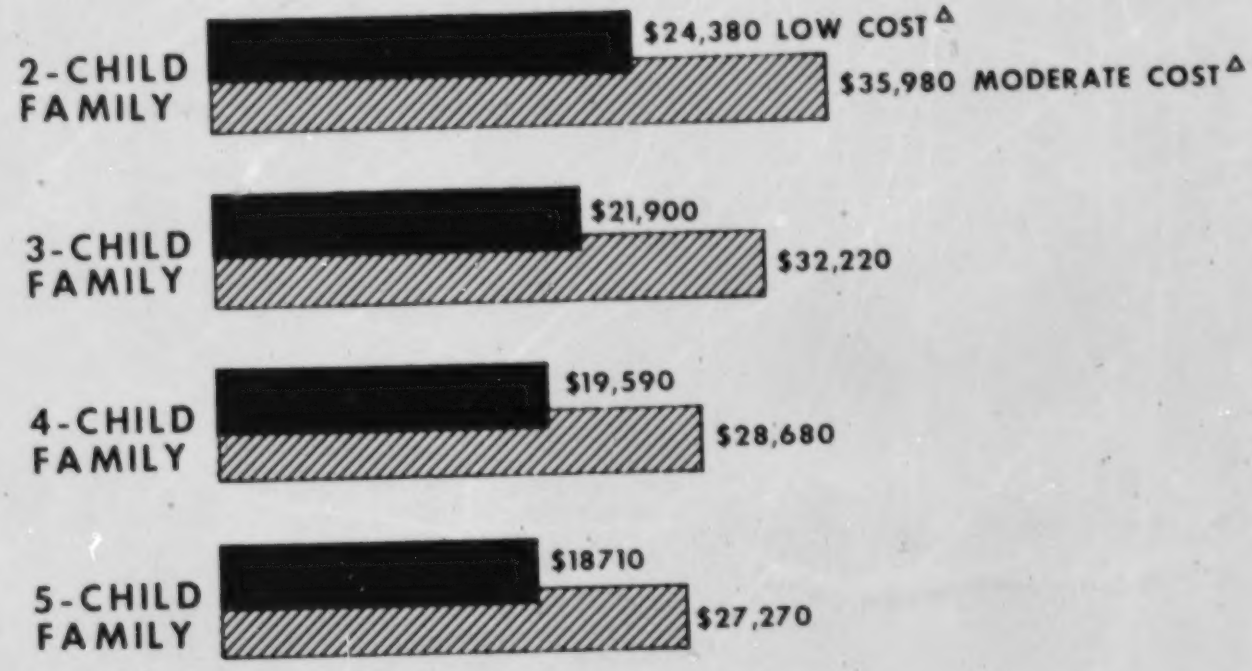
TOTAL AREA, 2.3 BIL. ACRES

NEG. ERS 8435-71 (8) ECONOMIC RESEARCH SERVICE

U.S. DEPARTMENT OF AGRICULTURE

Adult 103-2-9

COST OF RAISING A FARM CHILD* BY NUMBER OF CHILDREN

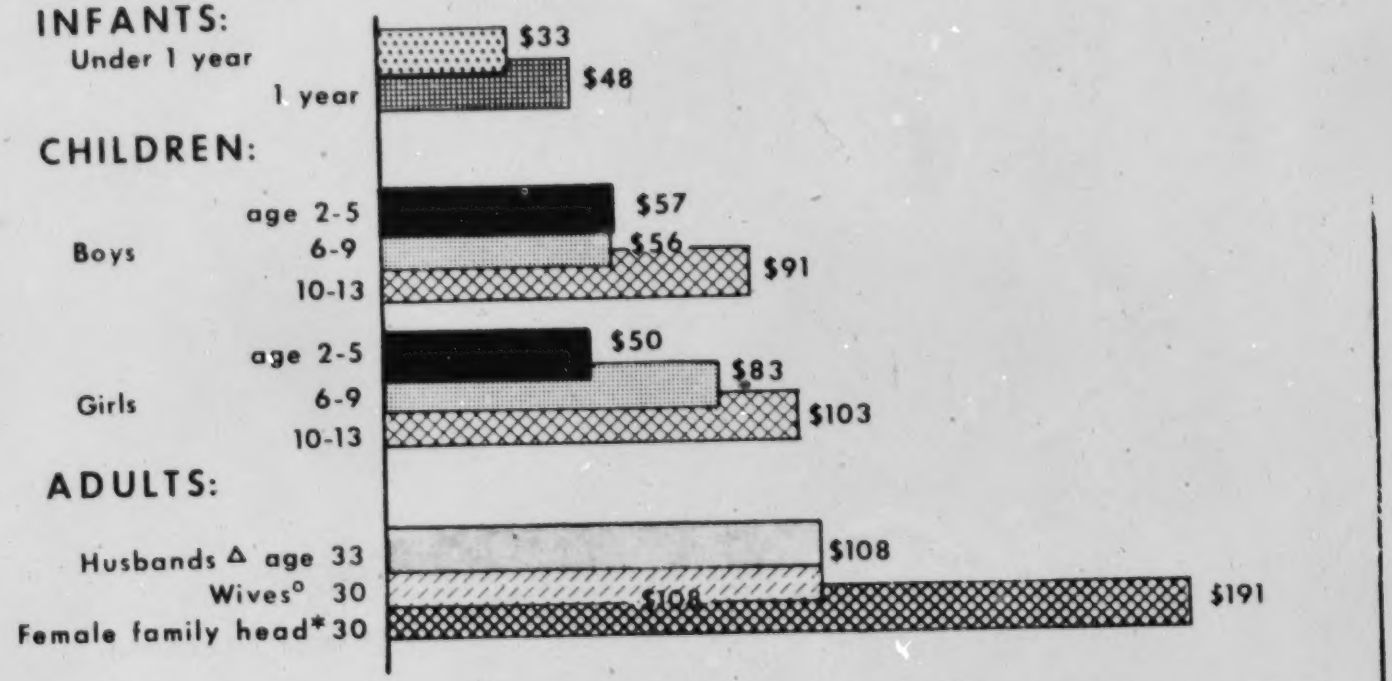


*TO AGE 18. △ BASED ON SPENDING PATTERNS OF FAMILIES WITH FOOD COSTS AT LEVELS OF USDA FOOD PLANS DERIVED FROM 1960-61 SURVEY OF CONSUMER EXPENDITURES; 1970 PRICES; NORTH CENTRAL REGION.

U.S. DEPARTMENT OF AGRICULTURE NEG. ARS 6019-71 (9) AGRICULTURAL RESEARCH SERVICE

Adult 103-2-10

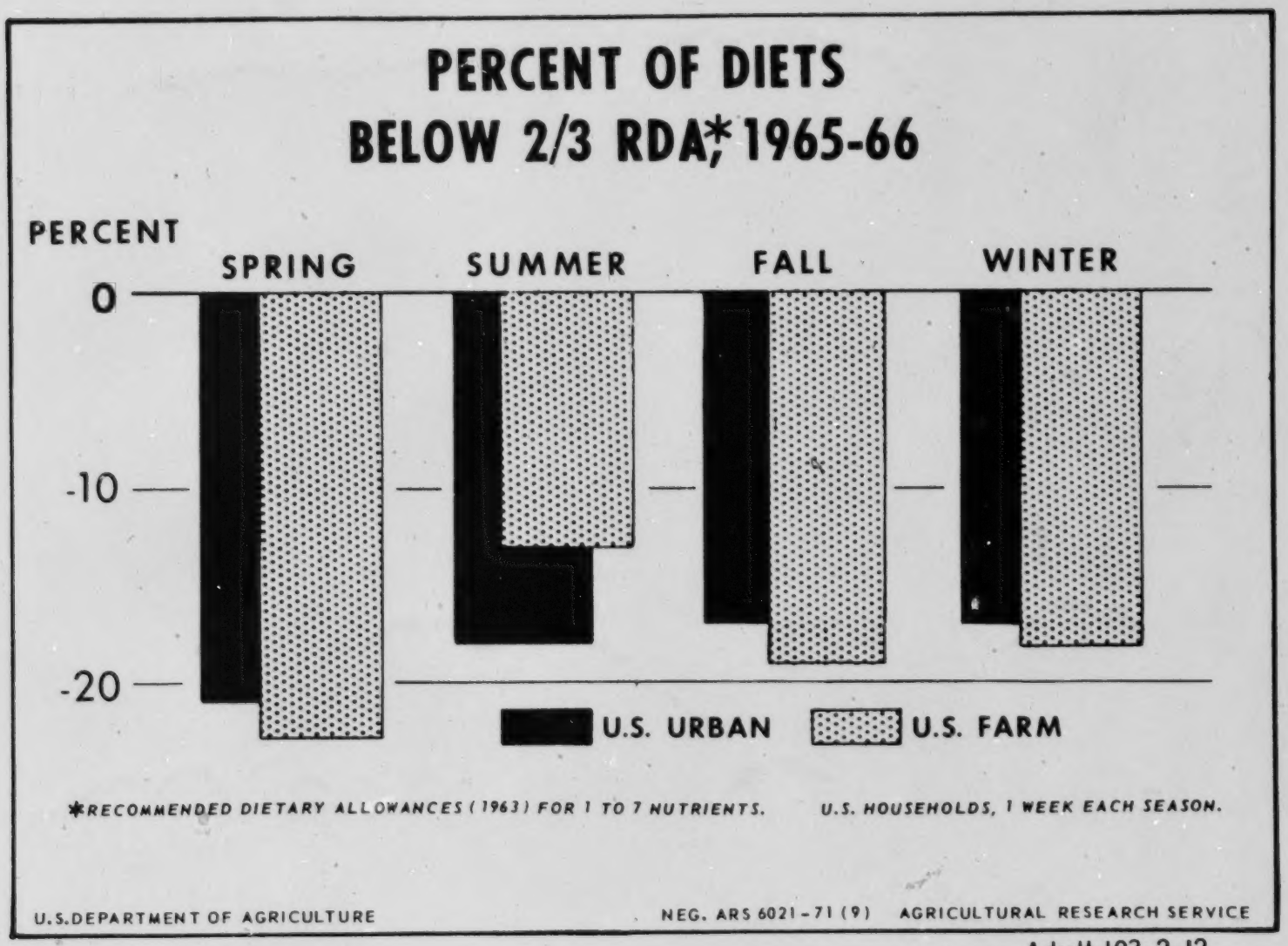
"MINIMUM LEVEL" CLOTHING BUDGETS
DES MOINES, IOWA 1965-66



ΔBLUE COLLAR WORKERS. °NO SPECIAL CLOTHING REQUIRED FOR THOSE EMPLOYED. *EMPLOYED FULL OR PART TIME.
DATA FROM IOWA AGRICULTURE AND HOME ECONOMICS EXPERIMENT STATION: COOPERATIVE AGREEMENT WITH ARS.

U.S. DEPARTMENT OF AGRICULTURE NEG. ARS 6020-71 (9) AGRICULTURAL RESEARCH SERVICE

Adult 103-2-11



Adult 103-2-12

Lesson 3

USING DESIRABLE SOURCES OF FARM CREDIT

Objective -- To develop the effective ability of farmers to use favorable credit for operating the farm business.

Problem and Analysis -- How can we select and use desirable sources of farm credit?

-Short-term and Intermediate Credit
-Long-term Credit

Content

Introduction -- Modern farming requires large amounts of credit. Wisely used credit is an important farm tool; unwisely used credit helps neither the borrower nor the lender. The establishment of a dependable source of credit and its wise use are important to farmers.

Borrowing for productive purposes is a sign of good management. Good credit is based upon the mutual confidence and respect between the borrower and lender. The demand for credit sometimes exceeds the supply of money to meet the credit needs. Thus we may be in a competitive market, and the better we present our case the more attention our request will receive.

Three factors determine our credit rating: capacity, collateral, and character. Some aids to the wise use of credit are:

1. Meet all obligations on time.
2. Keep credit commitments at the lowest point consistent with good business.
3. Have a definite repayment plan.
4. Consolidate debts as much as possible.

I. Short-term and intermediate credit

A. Sources
1. Merchants and dealers
a. Supplies (such as fertilizer, seed, feed, fuel) for short time.
b. Tractors, etc. for a longer period of time
2. Commercial banks
3. Individuals
4. Farmers Home Administration
5. Production Credit Association

B. Obtaining a loan involves:
1. Application
a. What is owned
b. What is owed
c. Net worth
d. Crop program
e. Livestock program
f. Amount of credit needed and purposes for use
g. Plan of repayment
h. Information as to insurance program carried
i. Signature of applicants
2. Credit factors considered
a. The man
b. Financial position and progress
c. Repayment capacity of the farm business
d. Purpose of loan and basis of approval
e. Collateral offered or available as security
3. Closing the loan
a. Sign a note
b. Sign a mortgage or financing statement and agreement
4. Budgeting the loan
a. Funds advanced as needed
b. Repayments made at time farm income is expected
5. Cost of the loan
a. In 1972 the interest is about 7%
b. Loan service fee
6. Period for which a loan is made:
a. Short-term -- usually 6 to 12 months
b. Intermediate-term -- usually 2 to 7 years

II. Long-term Credit

A. Sources
1. Insurance companies
2. Commercial banks
3. Individuals
4. Federal Land Bank

B. Purposes for which used
1. To buy land
2. To purchase equipment and livestock

3. To construct or repair buildings or other permanent improvements
4. To refinance existing debts

C. Terms of loans secured involve:
   1. Period of years
   2. Interest rate
   3. Repayment plan
      a. Amortized -- equal periodic payments
      b. Partial payment -- annual payments, but major portion of debt falls due at the end of a 10 to 15 year period
      c. Optional payments -- permits borrower to pay any part or all of the loan before it matures
   4. Contract financing
      a. Farm under contract, title remains in name of seller
      b. Buyer provides a small down payment
      c. Seller retains title until stipulated amount has been paid

D. Loans are approved on the basis of:
   1. Eligibility
      a. Income principally from farming operation
      b. Property must be sufficiently:
         (1) Desirable -- to be readily saleable or rentable under normal conditions;
         (2) Durable -- to maintain satisfactory production during the term of the loan;
         (3) Stable in value;
         (4) Capable of producing normal agricultural earnings.
   2. Appraisal
   3. Amount that may be loaned (up to 65 per cent of the normal agricultural value of the farm)

Suggestions for teaching the lesson

I. Developing the Situation

A. Things to be brought out by the teacher:
   1. We found in Lesson 2 that credit is a necessity for most farmers. Capital secured and used under conditions largely within the control of the operator is known as credit. For the use of such capital the borrower pays interest.
   2. To manage the farm business most effectively, borrowing money for productive purposes is a necessity for most farmers.
   3. A number of sources of credit are available for financing various activities -- on a short-term, an intermediate-term, and a long-term basis.

4. Obtaining a loan is a business procedure. We should be aware of vital steps in this procedure.
5. A sound plan for repayment must be carefully developed; this involves sound budgeting, conservative estimates of production, and realistic price predictions.

B. Things to be brought out by the class members:
1. Sources of credit used in the past -- experiences they have had with these sources.
2. Kinds of credit used -- ideas as to whether they should have used more credit or less credit.
3. Costs of the kinds of credit they have used or that they know about.
4. Experiences they have had in repayment of loans.

II. Conclusions

A. Borrowing for productive purposes is a sign of good management.

B. Commercial banks, Farmers Home Administration, Production Credit Associations, Federal Land Banks, insurance companies, and individuals are the chief lenders for the major share of farm credit.

C. Short-term and intermediate credit include production loans -- required to finance the growing and marketing of crops and livestock, minor farm improvements, and equipment purchases -- and are essential in modern farming. Usually local banks and Production Credit Associations are good sources of short-term credit to farmers.

D. Long-term loans are used to buy a farm, add to present acreage, or make major improvements. Commercial banks, Federal Land Banks, and life insurance companies make long-term real estate loans.

E. The privilege of making payments on a loan before they fall due is very important in long-term loans and should be provided for in the mortgage contract.

III. Enrichment Activities

A. Have a local banker, PCA manager, Federal Land Bank representative, FHA supervisor, or a panel of these individuals speak on the types of loans made, interest rates, etc.

B. Use individual farmers to discuss with the group their experiences with credit.

IV. Suggested Teaching Materials

A. References for Lesson 3

1. Doane's Farm Management Guide, pp. 61-62.
2. Farm Credit Analysis Handbook, Part IV.
3. Financing Farming Activities, Chapter III.
4. Trends in Kentucky Agriculture, Ky. Bulletin 653, pp. 6-10.
5. The Balance Sheet of the Farming Sector 1970, pp. 15-17.
6. You, Your Bank and Your Credit, Ky. Bankers Association.

B. Resource Personnel

1. Cooperative Extension Farm Management specialists
2. FHA supervisor
3. PCA personnel
4. Federal Land Bank personnel
5. Commercial bankers
6. Local farmers that have used credit extensively
7. For specific personnel see: VoAg Directory of Resource People in Kentucky.

C. Audio-Visuals

1. Masters -
   -1 Non-Real Estate Farm Loans (chart)
   -2 Farm Mortgages Recorded . . . (table)
   -3 New Money Loaned on Farm Mortgages (chart)
   -4 Financial Record (handout)

2. Films -
   a. "Credit to Grow On", from USDA -- 11½ min. (Color) PCA
   b. "Turning Point" from USDA -- 24 min. (Color) FHA

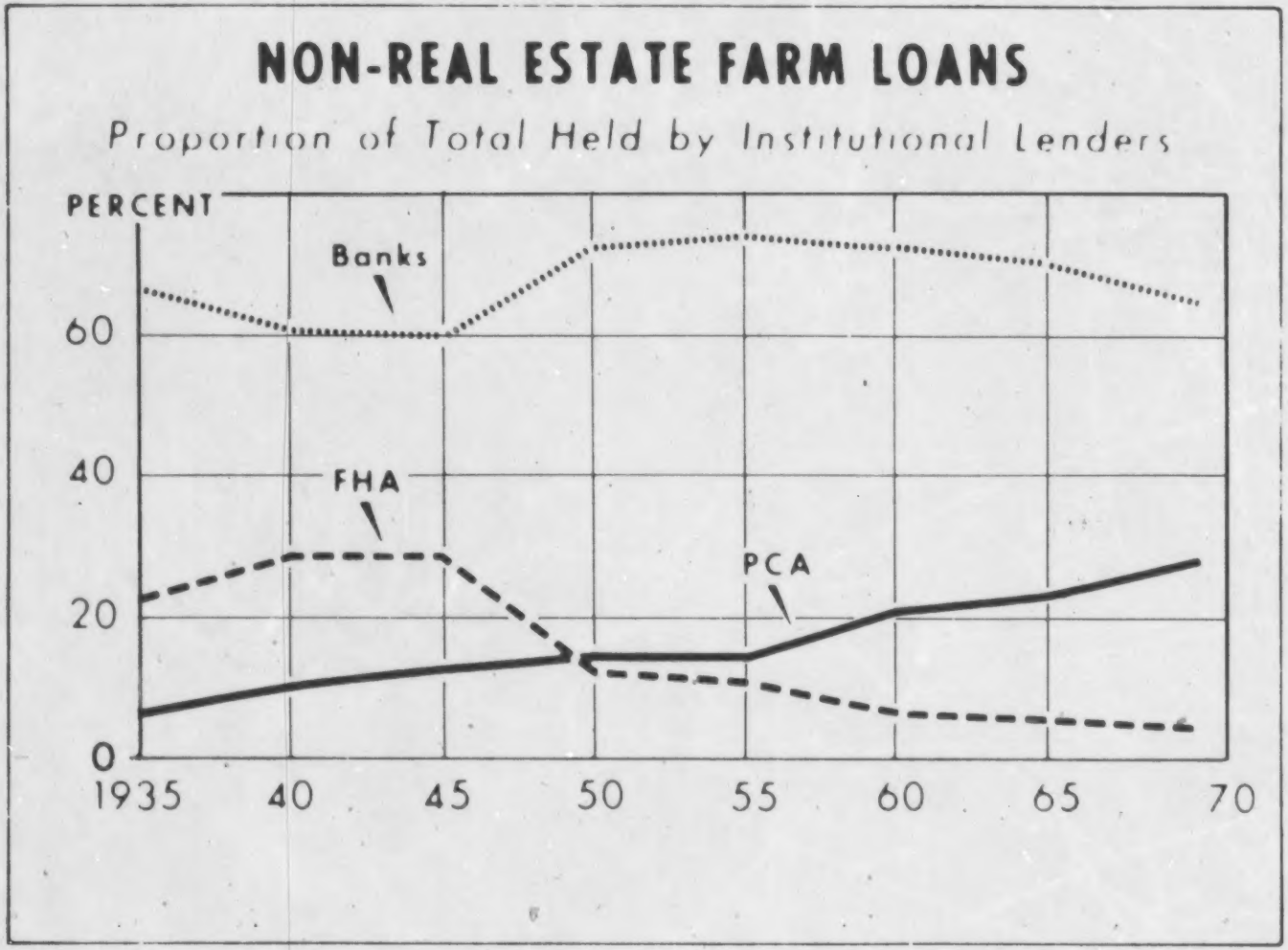

NON-REAL ESTATE FARM LOANS
Proportion of Total Held by Institutional Lenders
PERCENT
Banks
FHA
PCA
60
40
20
0
1935
40
45
50
55
60
65
70

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Table 1 —Farm mortgages recorded: Amount and percentage change, United States, 1968 and 1969[1]

Lender group	1968	1969	Change[2]
	Million dollars	*Million dollars*	*Percent*
Farmers Home Administration[3]	[4]267	308	15
Commercial and savings banks	1,134	1,070	-6
Federal land banks	1,124	1,213	8
Individuals	913	1,092	20
Life insurance companies	633	392	-38
Miscellaneous[5]	[4]976	1,190	22
Total	5,047	5,265	4

[1] Data for 48 States. Includes both new and renewed loans.

[2] Computed from unrounded data.

[3] Direct and insured farm loans to individuals. Includes farm-ownership, soil and water, and rural-housing loans to individuals. Also includes farm-ownership loans made from State corporation trust funds.

[4] Revised.

[5] Includes mortgage and investment companies; savings and loan associations; State and local government agencies; production credit associations; when the mortgage is secured by farm real estate; and lender groups not specifically identified.

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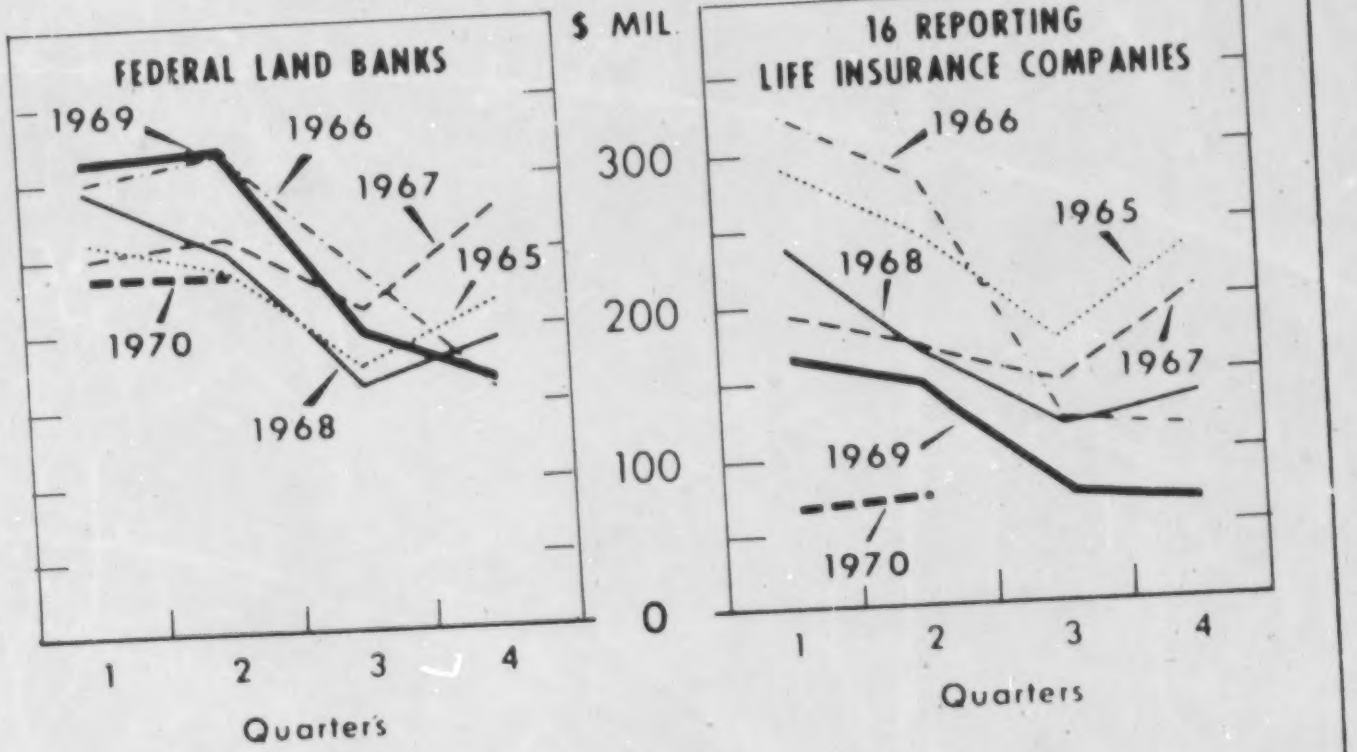
NEW MONEY LOANED ON FARM MORTGAGES BY TWO PRINCIPAL LENDERS



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FINANCIAL RECORD—AGRICULTURE

SECTION I—LOAN APPLICATION

Date _____

APPLICANT(S) . . . . . Name _____ Telephone _____

Address _____

_____

Married: yes ☐ Wife's Name _____

Age _____ no ☐

Ages: Boys _____ _____ _____ _____

No. of Dependents _____ Girls _____ _____ _____ _____

Farming Experience: Total _____ yrs. Present Farm _____ yrs.

LOAN REQUEST . . . . . Amount $ _____ Maturity _____

Purpose _____

_____

Collateral Offered _____

_____

Repayment Plan _____

_____

Comments _____

_____

FARM OPERATED . . . . . Location _____

(Owned) (Rented)

Total Acres _____ Tillable _____ _____

Other _____ _____

Landlord: Name _____

Address _____

Annual Cash

Lease Expires _____ 19____ Rent $ _____

Major Product(s) Sold _____

Contracts for Sale

of Products _____

(To whom and terms of contract)

_____

FINANCIAL FACTORS . . . . . Checking Account: Amount $ _____ Bank _____

Savings Account: Amount $ _____ Bank _____

Contingent Liabilities $ _____

Explain _____

_____

Pending Judgments or Lawsuits

Explain _____

_____

REFERENCES . . . . . Credit _____

(Name) (Address)

_____

_____

Business (trade) _____

(Name) (Address)

_____

_____

Personal _____

(Name) (Address)

_____

_____

REMARKS . . . . . _____

_____

_____

I (we) the undersigned certify that the foregoing statement and representations constitute to the best of my (our) knowledge true and correct statements.

Date signed _____ Signature _____

_____

SECTION II—FINANCIAL STATEMENT

Financial Statement of:

Name _____ Major Enterprise(s) _____

Address _____ Statement Date _____ 19____

TO:

ASSETS

CURRENT

Cash on Hand		$
Cash on Deposit (Bank _____)		
Notes Receivable	(Sched. A)	
Accounts Receivable	(Sched. A)	
Livestock Held for Sale	(Sched. B)	
Crops Held for Sale and Feed	(Sched. C)	
Cash Investment in Growing Crops	(Sched. C)	
Securities (Marketable)	(Sched. D)	
Cash Surrender Value of Life Insurance	(Sched. E)	
Other (Specify) _____		
TOTAL CURRENT		$

INTERMEDIATE

Autos and Trucks (Net)	(Sched. F)	$
Machinery and Equipment (Net)	(Sched. F)	
Breeding and Dairy Livestock	(Sched. B)	
Securities (Not readily marketable)	(Sched. D)	
Other (Specify) _____		
TOTAL INTERMEDIATE		$

FIXED

Farmland	(Sched. G)	$
Farm Improvements (Net)	(Sched. G)	
Nonfarm Real Estate	(Sched. H)	
Household Furnishings		
Other (Specify) _____		
TOTAL FIXED		$

TOTAL ASSETS $

LIABILITIES

CURRENT

Notes Payable to Our Bank	(Sched. I)	$
Notes Payable to Relatives	(Sched. I)	
Notes Payable to Others	(Sched. I)	
Accounts Payable	(Sched. I)	
Portion of Intermediate-Term Debt Due Within 12 Months	(Sched. J)	
Portion of Long-Term Debt Due Within 12 Months	(Sched. K)	
Rent, Taxes, and Interest Due and Unpaid		
Loans Against Cash Surrender Value of Life Insurance		
Other Debt Due Within 12 Months		
TOTAL CURRENT		$

INTERMEDIATE-TERM

Notes Payable to Our Bank	(Sched. J)	$
Notes Payable to Others	(Sched. J)	

Maturities of over 1 but under 10 years for other than seasonal needs—less portion applied to current liabilities.

TOTAL INTERMEDIATE-TERM $

LONG-TERM

Mortgages on Farm Real Estate (Less portion applied to current liabilities)	(Sched. K)	$
Mortgages on Other Real Estate (Less portion applied to current liabilities)	(Sched. K)	
Other (Specify) _____		
TOTAL LONG-TERM		$
TOTAL LIABILITIES		$
NET WORTH*		$
TOTAL LIABILITIES & NET WORTH		$

* Net worth resulting from upward reevaluation of fixed assets ($)

GENERAL INFORMATION

1. Insurance
   a. Real and Personal Property _____
   b. Liability _____
   c. Workmen's Compensation _____
   d. Other _____
2. Taxes
   a. Personal Property _____
   b. Real Estate _____
   c. Income _____
   d. Other _____

For the purpose of procuring and maintaining credit from time to time in any form whatsoever with the above-named bank, the undersigned submit(s) the above Financial Statement as being a true, complete, and accurate statement of my (our) financial condition on the above date, and agree(s) that if any change occurs that materially reduces the means or ability of the undersigned to pay all claims or demands against me (us), the undersigned will immediately notify the bank in writing; and unless the bank is so notified, it may continue to rely upon the statement herein as a true, complete, and accurate statement of the financial condition of the undersigned.

Signed _____ Date: _____ 19____

Certified by: _____ 65

SECTION III—SUPPORTING SCHEDULES

A. RECEIVABLES

	Type	From Whom	Amount Original	Amount Present	Date Due	Collateral
			$	$		
Notes						
		TOTAL	$	$		
Accounts						
		TOTAL	$	$		

B. LIVESTOCK

	No.	Description	Value Per Unit	Total Value
			$	$
Held for Sale				
			Total	$
			$	$
Held for Breeding (Including Dairy)				
			Total	$

C. CROPS

	Units	Description	Value Per Unit	Total Value
			$	$
Held for Sale or Feed				
			Total	$
	Acres			Investment to Date
				$
Growing				
			Total	$

D. SECURITIES

	Description	Present Total Value	Pledged	Amount Owed
		$		$
Marketable				
	Total	$		$
Nonmarketable				
	Total	$		$

E. LIFE INSURANCE (OWNED)

Face Value	Company	Insured	Present Cash Surrender Value	Annual Premium	Pledged	Amount Owed
$			$	$		$
$	Total		$	$		$

Section III—Supporting Schedules (continued)

F. MACHINERY AND EQUIPMENT (MAJOR ITEMS)

	Article	Year Purchased	Cost	Accumulated Depreciation	Present Value
Auto and Truck			$	$	$
		Total	$	$	$
All Other			$	$	$
		Total	$	$	$

G. FARMLAND AND IMPROVEMENTS

	Date Purchased	Description	Purchase Cost	Present Value	Title
Land			$	$	
		Total	$	$	

		Cost of Improvements	Accumulated Depreciation	Present Value
Improvements (Farm Structures)		$	$	$
	Total	$	$	$

H. NONFARM REAL ESTATE

Date Purchased	Description	Purchase Cost	Present Value	Title
		$	$	
	Total	$	$	

I. NOTES AND ACCOUNTS PAYABLE

	Date Originated	Original Amount	Balance Due	Holder	Terms Collateral	Terms Repayment
Notes		$	$			
	Total	$	$			

	Amount Due	To Whom	Repayment Arrangements
Accounts	$		
	$ Total		

J. INTERMEDIATE-TERM LIABILITIES

Date Originated	Original Amount	Balance Due	Holder	Purpose
	$	$		
Total	$	$		

K. LONG-TERM LIABILITIES

	Date Originated	Original Amount	Balance Due	Holder	Repayment Arrangements
Farm		$	$		
	Total	$	$		
Other					
	Total	$	$		

SECTION IV—PROFIT AND LOSS STATEMENT

Statement of: _____ Period Covered:

Address _____

Prepared for: _____ _____ 19 ____ through _____ 19 ____

RECEIPTS

Gross from Sale of Livestock and Livestock Products (describe):

	Units	
_____	(_____)	$_____
_____	(_____)	_____
_____	(_____)	_____
_____	(_____)	_____
Subtotal Livestock		$_____

Gross from Sale of Crops (describe):

_____	(_____)	$_____
_____	(_____)	_____
_____	(_____)	_____
_____	(_____)	_____
Subtotal Crops		$_____

Other from Farming (describe):

_____	$_____
_____	_____
_____	_____
Subtotal Other	$_____

Gross Receipts From Farming ..... $_____

OPERATING EXPENSES

Feeder Livestock Purchased	$_____
Feed Purchased	_____
Hired Labor	_____
Fertilizer and Lime	_____
Pesticides	_____
Seeds and Plants Purchased	_____
Machine Hire	_____
Machinery Maintenance and Repairs	_____
Fuel and Oil	_____
Livestock Expenses (breeding, veterinary, medicine)	_____
Maintenance and Repairs (other than machinery)	_____
Rent and Leases	_____
Utilities (farm share)	_____
Taxes and Insurance (farm share)	_____
Farm Interest	_____
Other Cash Expenses (specify):	_____
_____	_____
_____	_____
_____	_____
_____	_____

Total Cash Operating Expenses ..... $_____

Net Cash Income From Operation ..... $_____

Adjustments for Change in Inventory:

	Feed	Market Livestock	Supplies	
Beginning Inventory	$_____	$_____	$_____	
Ending Inventory	_____	_____	_____	
Net Change (±)	$_____	$_____	$_____	= ..... (±)$_____

(Plus if increased, minus if decreased)

Net Operating Profit ..... $_____

Adjustments for Capital Items:

	Machinery and Equipment	Breeding Livestock	Improvements	
Beginning Inventory	$_____	$_____	$_____	
Plus: Purchases	_____	_____	_____	
Less: Ending Inventory	_____	_____	_____	
Sales	_____	_____	_____	
Net Change (±)	$_____	$_____	$_____	= ..... (±)$_____

Profit (Loss) From Operation ..... $_____

Information Only

Depreciation taken this year:

Machinery and Equipment	$_____
Breeding Livestock	_____
Improvements	_____
Total	$_____
Annual Nonfarm Income:	$_____

I (we) hereby certify that the above is a complete and accurate statement of my (our) profit and loss record during the period shown to the best of my (our) knowledge and belief.

Signature(s) _____

_____

Date _____ 19 ____

Lesson 4

CREDIT TERMS AND INSTRUMENTS

Objective -- To develop the effective ability of farmers to understand and use credit terms and instruments.

Problem and Analysis -- How should we use credit instruments in properly financing the farm business?

-Commonly used credit instruments
-Functions of these credit instruments
-Proper preparation and use of credit instruments

Content

Introduction -- Practically all loans are supported by a written record or document. Such a record is tangible evidence that a contract has been made. These records, used in making loans, are called credit instruments.

In reality, credit instruments are the tools of borrowing and lending.

I. Commonly Used Credit Instruments

A. Check
1. A signed written order made out by an individual who has a checking account, telling his bank to pay a precise amount of money out of that account to a designated individual or company whose name appears on the front of the check.
2. Usually written from a checkbook (a book containing a supply of checks)
   a. Each check usually numbered consecutively
   b. Contain stubs that allow depositor to record his deposits and his withdrawals so that he may always know his exact bank balance.
3. Checking account -- an account against which checks may be written and to which deposits may be made.
   a. Demand deposits -- money on deposit may be taken out on demand with no prior warning
   b. Does not earn interest

B. Drafts
   1. An instrument like a check except that the order when paid by the bank is not charged to the signer but to a third person named on the face of the draft.
   2. Transfers title to the property purchased to the individual and gives the seller the right to collect the stated amount from the third person through the bank which is named on the draft.
   3. Financial institutions sometimes give "letters of credit" to their customers agreeing to honor drafts drawn on them under conditions set forth in the letter.

C. Promissory Note
   1. An unconditional written promise, signed by the maker, to pay a specified amount to a designated person on demand or on a predetermined future date.
   2. Often given in return for goods or services.
   3. May be signed by one or more makers.
   4. Tells the amount to be paid and should state the interest rate.

D. Mortgages
   1. An instrument creating a lien, or legal claim, on property.
   2. Gives the lender a legal claim against the property for the amount of the debt, unless the debt is paid as set forth in the mortgage contract.
   3. Ownership and control of the property are still the borrower's.
   4. Lender has the security of knowing that the property may be sold if necessary to satisfy his claim.

E. Sales Contract
   1. Agreement by one party to sell property or a service to a second party for a stated consideration and under stated terms and conditions.
   2. Must be in written form.
   3. Not necessarily uniform.

II. Functions of Credit Instruments

A. Check --
   1. Less danger of loss or theft.
   2. More convenient than money.
   3. When cancelled, is good evidence of payment.
   4. Easier to keep records.
   5. Most commonly used instrument.

B. Draft --
   1. Convenience.
   2. Contributes to w ser purchases.

C. Promissory Note --
   1. Enables the receipt of goods or services.
   2. Outlines repayment plan.
   3. May enable the borrowing of short-term money with only signature as security.

D. Mortgage--
   1. Insures that we have ownership and control of property.
   2. Enables a check for proper title to property.
   3. Provides the lender with security.

E. Sales Contract --
   1. Enables purchaser to buy land when he does not have sufficient capital to handle the deal through a farm-mortgage loan.
   2. Sets forth legal position of the parties to the contract if default occurs.

III. Preparation and Use of Credit Instruments

A. Check:
   1. Write all checks in ink.
   2. Write plainly.
   3. Fill in completely the line giving the amount.
   4. Do not make checks payable to "Cash".
   5. Never sign a blank check.
   6. If a mistake is made in filling out a check, destroy it and write a new one.
   7. Show for what purpose the check is written.

B. Draft:
   1. Be sure that the person against whom the draft is written will accept the charge of the amount named.
   2. Fill out properly in ink.

C. Promissory Note:
   1. A person who signs a note as maker establishes his liability, or responsibility, for payment.
   2. The maker of a note is liable for payment of any balance not covered by the proceeds from the collateral he gave.
   3. Never sign a note unless you stand ready to pay the obligation.

D. Mortgages:
   1. On long-term loans the borrower will offer a mortgage on his land.
   2. On short-term loans the borrower will offer a chattel mortgage on his personal property (equipment, livestock, crops).
   3. Is filed on record in the county courthouse.

4. If legal steps are taken, public sale of the property results, with the net proceeds of the sale being applied to pay off debts.

E. Sales Contract:
   1. Must be in written form.
   2. Includes statements relative to:
      a. Receipt of a down payment;
      b. Total purchase price;
      c. Dates and amounts of the other payments;
      d. Rate of interest to be paid on the unpaid portion;
      e. Conditions creating a default by either the purchaser or seller by deed or other instrument;
      f. When legal title to the land is to be given the purchaser.
   3. Enables purchaser to gain operating control of a farm earlier than he would otherwise be able to purchase it.

Suggestions for teaching the lesson

I. Developing the Situation

A. Things to be brought out by the teacher:
   1. The use of credit involves a number of transactions and instruments which a person should understand and handle with proper care.
   2. The various instruments obligate parties to do specific things.
   3. Credit forms should be prepared properly to avoid errors which may result in serious losses.
   4. Credit instruments are a great convenience in operating a business when properly used.

B. Things to be brought out by the class members:
   1. Whether or not they use checks -- for what items do they use them.
   2. Their ideas as to what each of the credit instruments is -- check, draft, note, mortgage, slaes contract.
   3. Uses made of contracts.
   4. How they may know if they have a clear title to goods or property purchased.
   5. Persons bound by contracts.

II. Conclusions

A. The credit instruments which have been most commonly used by farm families in regard to personal property transaction are checks, drafts, promissory notes, mortgages, and sales contracts. Each of these instruments has been developed to meet a particular need.

B. Some desirable practices in handling all credit instruments are:
   1. Have them plainly but clearly prepared and written.
   2. Have the instruments properly dated.
   3. Write them in ink.
   4. Fill in all blanks properly.
   5. Keep proper records of credit instruments.

C. Some credit instruments and certain features are:
   1. Check -- a signed written order on a bank to pay a certain sum of money on demand to the bearer of the check or to the order of a named person. (See Figure 3, end of lesson).
   2. Draft -- like a check except that when paid by a bank it is not charged to the signer but to a third person named on the face of draft. (See Figures 1 and 2, end of lesson).
   3. Promissory Note -- an unconditional promise, signed by the maker, to pay upon demand, or at a fixed time, a certain sum of money to the bearer or the designated payee or his order. (See Figure 4, end of lesson). The note may or may not be secured by a mortgage or a cosigner.
   4. Mortgage -- an instrument creating a lien on property, giving the holder of the mortgage a legal claim against the property as security for the payment of a debt. Mortgages on farms are real-estate mortgages. Mortgage on such items as livestock and machinery are known as chattel mortgages. Mortgages are recorded in the courthouse.
   5. Sales Contract -- an agreement to sell property or services to a second party for a certain price and under stated conditions. This device is used in selling land when the purchaser does not have sufficient capital to handle the deal through a farm mortgage loan.

III. Enrichment Activities

A. Other credit instruments may be dealt with in this lesson if the group is interested.

B. Have the group fill our various instruments (see samples) that they use or anticipate using.

C. Use resource people such as banker, PCA representative, etc., to discuss or serve on a panel for discussing credit instruments.

D. Provide samples of each of the instruments discussed.

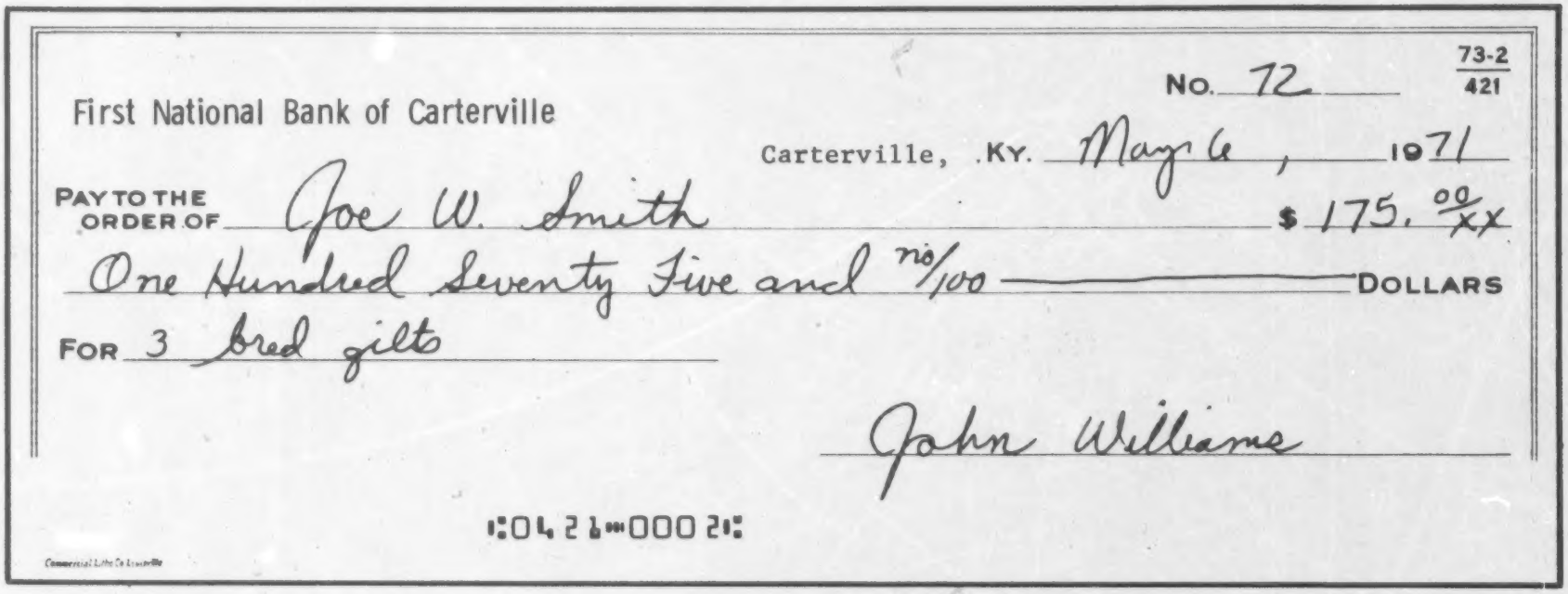
IV. Suggested Teaching Materials

A. References for Lesson 4
1. Doane's Farm Management Guide, Chapter 3.
2. Financing Farming Activities, pp. 15-19.
3. Credit Instruments, University of Illinois VAS 2034.
4. You and Your Bank, American Bankers Association Booklet, pp. 26-33.

B. Resource Personnel
1. Local banker
2. PCA representative
3. Federal Land Bank manager
4. FHA supervisor
5. For specific personnel see: VoAg Directory of Resource People in Kentucky.

C. Audio-Visuals
1. Masters -
-1 Sample Check
-2 Promissory Note
-3 Bill of Sale Sight Draft

SAMPLE CHECK



First National Bank of Carterville

No. 72

73-2
421

Carterville, KY. May 6, 1971

PAY TO THE ORDER OF Joe W. Smith $ 175.00 XX

One Hundred Seventy Five and no/100 DOLLARS

FOR 3 bred gilts

John Williams

⑆042 1⑆000 21⑆

Commercial Litho Co Louisville

75

Check form courtesy First Security
National Bank, Lexington, Kentucky

Adult 103-4-1

PROMISSORY NOTE

PCA NOTE — (Open-end)
Form PCA 400C (10-71)

Co-Fo 66-7 Member No. & Loan Type 12763-1 Budget

John and Mary Williams
Route 2 Box 36
Carterville, Kentucky

(TYPE MAKERS' NAMES AND POST-OFFICE ADDRESSES IN THIS BLOCK)

$ 4,200.00 March 5, 1971

On demand, for value received, I (we) promise to pay to the order of Farmers Production Credit Association Carterville, Kentucky, negotiable and payable at any office of the payee, the sum of Four Thousand Two Hundred and no/100 ---------- Dollars, or whatever lesser sum may be outstanding, including any future advances which may be made hereunder from time to time within a period of seven (7) years from the date hereof, provided that the total of the unpaid balances of such future advances together with the existing indebtedness hereunder shall not exceed in the aggregate at any one time outstanding the amount stated above, with interest at the rate of seven percent per annum from the date of disbursement until paid, or at payee's option, with interest at such other rates as may subsequently be adopted by payee, from date of adoption until note is paid in full, with attorney's fees and costs of collection as allowed by law, and without any relief whatever from any state laws of valuation or appraisement.

The payee is hereby obligated, at the request of makers and until demand for payment is made, to reinstate and readvance on this note all sums repaid by the maker, provided, however, that the total amount outstanding at any time hereunder shall not exceed the above stated face amount of this note.

The makers and endorsers severally consent to any partial release of collateral and extension and waive demand, presentment for payment, protest, notice of protest, notice of non-payment of this Note, and all other defenses to the extent the Federal Intermediate Credit Bank of Louisville gives or has given value to the payee hereof in reliance upon this Note and do waive all such defenses or rights of offset which they or either of them might have against the payee hereof when this Note is held by said bank, a farm loan registrar, or the successors or assigns of either. The funds evidenced by this Note may be disbursed to any one or more of the undersigned makers and/or endorsers.

This Note is secured by Financing Statement(s) and Security Agreement(s). It is also secured by Real Estate Mortgage(s) dated _____. The Note evidences the original indebtedness and any additional advances or disbursements hereunder.

John Williams

Mary Williams

[redacted] Adult 103-4-2

Note on courtesy of [redacted] County
FSA, Lexington, [redacted]ucky

Lesson 5

PLANNING AN INSURANCE PROGRAM FOR THE FARM

Objective -- To develop the effective ability of farmers to protect the farm business and farm family from severe risks and losses.

Problem and Analysis -- What insurance coverage should a farmer have?

-Liability insurance
-Property insurance
-Crop insurance
-Life insurance

Content

Introduction -- The importance of insurance is growing with the increasing investment required in capital assets on the farm. Insurance becomes a means to protect these large investments. A major catastrophe may easily cause us to lose our farm or wipe out our savings unless we are adequately insured. On the other hand, carrying large amounts of insurance can be extremely costly.

We must carefully study our situation and determine which risks are most serious. When we decide what risks to insure, we must secure as much protection as possible with each dollar that we can afford to spend. The more coverage we get, the more our insurance will cost. Major types needed are listed below.

I. Liability Insurance -- includes the areas of:

A. Public liability -- accidents caused by
1. General farm operations
2. Machinery or tractors

B. Employer's liability

C. Workmen's Compensation

D. Motor vehicle insurance

II. Property insurance -- provides protection against losses of

A. Buildings and equipment
1. Fire
2. Wind

B. Livestock
1. On-Farm
a. Fire
b. Lightning
c. Theft
2. Off-Farm
a. Against death or injury when sent to market
b. Enroute to farm

III. Crop Insurance -- protects aginst losses in

A. Field
1. Hail
2. Wind

B. Storage -- fire, etc.

IV. Life Insurance

A. Term Life -- no investment or savings feature involved

B. Ordinary Life -- "permanent" insurance -- includes savings feature

V. Hospitalization Insurance

A. Commercial -- fixed schedule of benefits

B. Blue Cross/Blue Shield -- "prepaid" insurance

VI. Long-Term Disability Insurance -- provides income in the event of inability to work.

Suggestions for teaching the lesson

I. Developing the Situation

A. Things to be brought out by the teacher:
1. Operating a farm business involves many risks. Some of the risks may be reduced by insurance. A farmer cannot afford complete insurance against all risks.
2. Insurance is a "must" for a farm business -- especially if credit is being employed. Coverage should be adequate to protect both the farmer's equity and the creditor's interest.
3. Classify risks as to which ones would be most disastrous if they occurred.
4. The primary purpose of insurance of any kind is protection. A secondary purpose of life insurance (except term) is investment. Farmers are usually in greater need of protection than an opportunity for outside investment.
5. It is important that all insurance be kept up to date to assure that additional property, such as new buildings, is covered and that items which are out of existence or no longer needed are eliminated from the policies.

B. Things to be brought out by the class members:
1. Types of insurance carried by the members.
2. Amount of insurance coverage they have.
3. Cost of premiums for insurance coverage.
4. Types of insurance coverage they do not have but feel they should include in their insurance program.
5. Plans for change in their insurance programs.

II. Conclusions

A. Farmers should have insurance to cover any losses that might be a severe financial jolt to the farm business. We should try to get the most protection with the amount that we can spend.

B. Risks vary from farm to farm. Usually, in order of importance, farm managers and authorities list the following insurance needs:
1. Liability insurance
2. Property insurance against fire and wind
3. Term life insurance to protect the investment
4. Crop insurance

C. Public liability protects us from lawsuits by members of the public who suffer property loss or bodily injury caused by our negligence.

1. Includes accidents caused by general farm operations -- structural alterations, machinery, or tractors and animals.
2. Personal liability and property damage covering motor vehicles owned or operated by members of the farm family.
3. Employer's liability covers loss of time, medical care, bodily injury, sickness, and death.
4. Workmen's Compensation protects the employee regardless of who is negligent.

D. Buildings and equipment are commonly protected against fire. Wind coverage should also be included. Generally we should:
1. Purchase 3-year policies payable in advance (usually lower in cost).
2. Insure property from 65 to 80 per cent of its actual value.

E. Livestock insurance should be carried on:
1. Valuable animals, such as purebred sires.
2. Flocks or herds which have been purchased with a loan, until the debt is paid.
3. Large flocks or herds held under close confinement.

F. Insure tobacco for damage from hail if such loss would severely affect the farm business. Insure crops in storage against fire losses if large amounts are stored in one building or area.

G. Life insurance should be carried on members of the family who are contributing heavily to its support. Carry enough insurance to cover all debts and to provide reasonable support to the operator's family.

H. "Blue Cross" or a similar type of family-service hospital insurance should be included as a part of the insurance program.

I. Long-term disability insurance should be considered to protect against losses due to sickness or accident.

III. Enrichment Activities

A. Have an insurance representative discuss an insurance program for farmers.

B. Use a commercial banker, PCA representative, or other credit personnel to discuss insurance requirements and suggestions for adequate protection.

C. Invite a hospital administrator to give some information on cost of hospitalization, frequency of farmer admittance to hospitals, duration of stay, etc.

IV. Suggested Teaching Materials

A. References for Lesson 5

1. Doane's Farm Management Guide, pp. 63, 81-82.
2. Farm Credit Analysis Handbook, Part V.
3. Economics of American Agriculture, pp. 478-479.

B. Resource Personnel

1. Local insurance representative
2. Local banker
3. Local PCA manager
4. Local Federal Land Bank representative
5. For specific personnel see: VoAg Directory of Resource People in Kentucky.

C. Audio-Visual

1. Master
   -1 Worksheet for Insurance Program

Work Sheet for Insurance Program

Name_____ Year_____

Type of Insurance	Type of Coverage	Amount of Coverage	Annual Premiums	Insurance Agency or Company
I. Liability				
Accident				
Employers'				
Motor Vehicles				
Workmen's Compensation				
Other				
Total	xxxxx	xxxxxxx		xxxxxxxxxxx
II. Property				
Building & Equipment				
Livestock				
Other				
Total	xxxxx	xxxxxxx		xxxxxxxxxxx
III. Crop				
Field				
Storage				
Total	xxxxx	xxxxxxxx		xxxxxxxxxxxx
IV. Life				
Term				
Ordinary Life				
Hospitalization				
Total	xxxxxx	xxxxxxxxx		xxxxxxxxxxxx

Total Annual Premiums for Insurance $_____

Lesson 6

TRANSFERRING THE FARM BUSINESS AND RETIREMENT

Objective -- To develop the effective ability of farmers to provide for orderly retirement and transfer of the farm business.

Problem and Analysis -- How can we provide for orderly transfer of property and retirement from farm operation?

-Inheritance laws and taxes
-Making wills
-Planning family farm transfers
-Father-son farming partnerships
-Social Security requirements and benefits

Content

Introduction -- Estate planning is a complicated but necessary business. Arrangements should be made for disposition and management of our estate (money and property) to best meet the financial needs of our family. Sound personal money management requires an estate plan plus drawing of a will to accomplish our objectives. A will gives us the advantage of specifying:

1. To whom our property should go
2. When it should go
3. In what amounts it should go
4. How it should be safeguarded
5. By whom it should be handled

I. Inheritance Laws and Taxes -- consider:

A. State laws -- do not state that we must have wills

B. Interstate descent -- when death occurs without a will -- provides:
   1. The property of a deceased citizen of the State of Kentucky who leaves no will is distributed according to the requirements of an arbitrary law. The following shares would go to your heirs, under the law now

in effect, if you die leaving:

a. Wife or husband and children or their descendants --
   (1) Wife or husband -- one-half.
   (2) Child or children -- one-half, divided equally.

b. Child or children but no wife or husband -- child or children receive all, divided equally.

c. Wife or husband but no children or their descendants --
   (1) If your mother and father survive:
      (a) Wife or husband -- one-half.
      (b) Mother and father -- one-half, divided equally.
   (2) If only one parent survives:
      (a) Wife or husband -- one-half.
      (b) Surviving parent - one-half.
   (3) If no parents, but brothers and sisters survive:
      (a) Wife or husband, one-half.
      (b) Brothers or sisters, one-half, divided equally.
   (4) If no parents, brothers or sisters or their descendants, wife or husband takes all.

d. No wife or husband, no children or their descendants --
   (1) If your mother and (or) father survive:
      (a) Mother, one-half.
      (b) Father, one-half.
      (c) One parent survives, all.
   (2) If no parents, but brothers and sister survive -- brothers and sisters receive all, divided equally.
   (3) If no parents, brothers or sisters or their descendants survive:
      (a) Nearest paternal kin, one-half.
      (b) Nearest maternal kin, one-half.

C. State and Federal Inheritance taxes -- see latest legislative rulings.

II. In making wills consider:

A. Importance -- loss to family if improperly written.

B. Executor -- someone who will ably and conscientously carry out the provisions of the will.

C. Legal Counsel -- required in practicability and by many states.

D. Safe storage -- provision for several copies and a safe repository.

III. Planned family farm transfer provides for the:

A. Security of the parents or owners.

B. Security of the new operator.

C. Equitable treatment of all heirs.

D. Maintenance of the farm as a business.

IV. Father-son farming partnerships should provide for:

A. Clear agreement.

B. Need for changes:
1. Increased ownership and returns.
2. Farm lease.
3. Farm ownership.

V. Social Security requirements and benefits (see masters 1 to 4 for data on eligibility and benefits.)

Suggestions for teaching the lesson

I. Developing the Situation

A. Things to be brought out by the teacher:
1. Young men becoming established in farming are faced with the problem of an orderly retirement of the present owners and operators and the ultimate transfer of property and the farm business. Frequently, this change involves members of the immediate family.
2. The ability to bring about such a change in an orderly manner has much to do with becoming satisfactorily established in farming. Much of the adjustment to be made is of a financial nature.
3. Some thought must be given by a farmer to how he may retire, what may happen to his family and property in the event of his death, and how property may be transferred with least expense or loss to his estate.
4. A young farmer should be familiar with the requirements and benefits of Social Security.

B. Things to be brought out by the members:
1. Experiences the members have had in settling estates or being involved in farm transfers.
2. Knowledge they have of inheritance laws and taxes.
3. Number who have wills; values derived from having an up-to-date will.
4. Requirements of Social Security coverage.

5. Benefits of Social Security in a retirement program.
6. Steps to take in securing Social Security Insurance protection.

II. Conclusions

A. Ownership of farm property changes at least once in each generation. A good transfer arrangement should provide for:
   1. Reasonable security of the parents or owners.
   2. Reasonable security of the new operator.
   3. Equitable treatment of other heirs.
   4. Maintenance of the farm as a going business.

B. Inheritance laws and taxes may impose rather harsh and sometimes unfair treatment on individual heirs where no property-transfer planning has been done.

C. Wills should be made for the protection of our loved ones. By leaving a will it is possible for us to:
   1. Give our property to the persons we select.
   2. Reduce estate and inheritance taxes.
   3. Provide for preservation of heirlooms and the continuation of our business.
   4. Appoint an experienced, efficient executor who will be available when needed.

D. Wills should be simple, easy to understand and execute, kept up-to-date, and prepared with legal counsel.

E. Two general types of father-son arrangements are prevalent --
   1. Those under which the father and son live and work together on the same farm.
   2. Those in which the son is largely "on his own." Regardless of which of these two basic plans is followed, it is desirable in most cases that the son eventually share in the entire farm business.

F. Social Security provides a form of insurance for the family of the young farmer that he likely cannot afford to buy elsewhere. During working years, self-employed people (farmers) pay Social Security contributions into special funds. Net farm earnings are the basis for contribution. Number of quarters necessary for coverage ranges from 6-40 based upon year of birth. Benefits received from Social Security coverage vary from $70.40 monthly for a single worker over age 65 who earned less that $923/year to $482.70 maximum family payment.

G. Since the Social Security program began in 1935, it has been changed and improved many times. In order to get the full idea of the value of Social Security to us, it will be helpful for us to keep abreast of the changes made in the Social Security laws.

III. Enrichment Activities

A. Have an attorney, bank trust officer, or specialist in farm management discuss farm transfer, wills, partnerships, or joint ownership, as the situation warrants.

B. Invite a Social Security representative to discuss Social Security as applicable to farmers.

IV. Suggested teaching materials

A. References for Lesson 6
1. Doane's Farm Management Guide, pp. 77-80.
2. A Guide to Father-Son Farming Arrangements. Ky. Circular 463.
3. Michigan State University Special Bulletin 436, Family Farm Transfers.
4. Personal Money Management, American Bankers Association booklet, pp. 52-57.
5. Doane's Agricultural Report, October 1, 1969, p. 16.
6. Social Security Administration publications:
   - Your Social Security.
   - Social Security Information for Young Families.
   - Farmers . . . How to Report your Income for Social Security
   - Social Security Benefits . . . How you Earn Them.

B. Resource Personnel
1. Local attorney
2. Trust officer of commercial bank
3. Farm management specialist
4. Social Security representative
5. For specific personnel see: VoAg Directory of Resource People In Kentucky

C. Audio-Visuals
1. Masters
   -1 Contribution Rate Schedule for Self-Employed People (table)
   -2 Elegibility Requirements for Benefits (table)
   -3 Examples of Monthly Cash Payments (table)
   -4 Figuring Net Earnings for Social Security (Handout)

CONTRIBUTION RATE SCHEDULE FOR SELF EMPLOYED PEOPLE

Year	Percent of Covered Earnings		
	For Retirement, Survivors, and Disability Insurance	For Hospital Insurance	Total
1971-72	6.9	.6	7.5
1973-75	7.0	.65	7.65
1976-79	7.0	.7	7.7
1980-86	7.0	.8	7.8
1987 and after	7.0	.9	7.9

Adult 103-6-1

ELEGIBILITY REQUIREMENTS FOR BENEFITS

Year in Which You Were Born	Year You are 65	Quarters of Coverage Needed for Retirement Benefits		Quarters of Coverage Needed for Hospital Insurance	
		Men	Women	Men	Women
1892 or earlier	1957 or earlier	6	6	0	0
1893	1958	7	6	0	0
1894	1959	8	6	0	0
1895	1960	9	6	0	0
1896	1961	10	7	0	0
1897	1962	11	8	0	0
1898	1963	12	9	0	0
1899	1964	13	10	0	0
1900	1965	14	11	0	0
1901	1966	15	12	0	0
1902	1967	16	13	0	0
1903	1968	17	14	3	3
1904	1969	18	15	6	6
1905	1970	19	16	9	9
1906	1971	20	17	12	12
1907	1972	21	18	15	15
1908	1973	22	19	18	18
1909	1974	23	20	21	20
1910	1975	24	21	24	21
1911	1976	25	22	25	22
1912	1977	26	23	26	23
1913	1978	27	24	27	24
1917	1982	31	28	31	28
1921	1986	35	32	35	32
1925	1990	39	36	39	36
1929 or later	1994 or later	40	40	40	40

Adult 103-6-2

EXAMPLES OF MONTHLY CASH PAYMENTS

Average yearly earnings after 1950	$923 or less	$1800	$3000	$4200	$5400	$6600	$7800
Retired worker - 65 or older Disabled worker - under 65	70.40	111.90	145.60	177.70	208.80	240.30	275.80
Wife 65 or older	35.20	56.00	72.80	88.90	104.40	120.20	137.90
Retired worker at 62	56.40	89.60	116.50	142.20	167.10	192.30	220.70
Wife at 62, no child	26.40	42.00	54.60	66.70	78.30	90.20	103.50
Widow at 60	61.10	80.10	104.20	127.20	149.40	171.90	197.30
Widow or widower at 62	70.40	92.40	120.20	146.70	172.30	198.30	227.60
Disabled widow at 50	42.80	56.10	72.90	89.00	104.50	120.30	138.00
Wife under 65 and one child	35.20	56.00	77.10	131.20	181.10	194.90	206.90
Widowed mother and one child	105.60	167.90	218.40	266.60	313.20	360.60	413.80
Widowed mother and two children	105.60	167.90	222.70	308.90	389.90	435.20	482.70
One child of retired or Disabled worker	35.20	56.00	72.80	88.90	104.40	120.20	137.90
One surviving child	70.40	84.00	109.20	133.30	156.60	180.30	206.90
Maximum family payment	105.60	167.90	222.70	308.90	389.90	435.20	482.70

FIGURING NET EARNINGS FOR SOCIAL SECURITY

Actual Net Earnings -- In general, net farm earnings are the profits you have from your farm operation, figured by subtracting all allowable farm business expenses, including depreciation from your gross farm income. It is important that you subtract all proper expenses. Gross earnings generally are the same as the gross farm profit you report on Form 1040 Schedule F (Farm Income and Expense) for Federal income tax purposes. Income from the sale of equipment and livestock not held for sale (such as dairy, breeding, sporting, or work animals) should not be included in gross farm income for social security purposes. Farm operators and "materially participating" farm landlords should include Federal agriculture program payments in their gross income for social security purposes.

Optional Method for Figuring Net Earnings -- If you have actual or net earnings of less than $400, but gross earnings of $600 or more, you may wish to consider figuring your net earnings under the optional method so you can get social security credit for that year. Each year you can decide if you want to report the amount figured under the option or to report your actual net earnings.

This is how you can figure net earnings under the optional method:

- If your gross farm income is between $600 and $2,400, you may report as self-employment income either two-thirds of your gross income, or your actual net earnings if $400 or more.
- If your gross farm income is over $2,400 and actual net earnings are not more than $1,600, you may report either $1,600 or your actual net earnings as self-employment income.
- If your gross farm income is over $2,400 and actual net earnings are over $1,600, your actual net earnings must be reported.

You must combine the gross income from all your farming operations when figuring your net earnings by the optional method. Do not include any non-farm self-employment income in your gross earnings when the optional method is used.

Individual members of a farm partnership can also use the option. Generally, the partnership gross income is divided on the same basis as the profit or loss, and this proportion is allocated to the individual partners for the purpose of the option.

*Source: DHEW Publication No. (SSA) 72-10025, November 1971.

APPENDIX

MY TEACHING PLAN FOR THIS COURSE

Why I am teaching this course (major learnings or outcomes expected)

ARRANGEMENTS FOR THE COURSE

Session No.	Date	Topic	Clock Hours

This page is for your convenience in planning and rearranging the content of this course to meet local needs and interests. Plan the course as it will be taught in the local school, showing the dates, class session number, topics, and the time in hours allocated to each topic.

TOPIC PLANNING FOR THIS COURSE

Name of Course _____

Name of Topic _____

Number of Class Meetings Allotted for this Topic _____

Teaching Objectives: (Learnings or outcomes for those enrolled)

Major Phases of the Topic: (Problems, jobs, areas, skills, key points, understandings, etc.)

Learning Activities: (Field trips, completing summary forms, panel discussions, demonstrations, etc.)

Teaching Materials Needed: (From resource material list or file)

RESOURCE MATERIALS FOR TEACHING

Unit _____ Lesson _____

Reference Books	Date Used	File Location
Other References: Bulletins, Magazines, Etc.		
Audio-Visuals: Slides, Filmstrips, Motion Pictures		
Magnetic, Flannel, and Bulletin Board		
Charts, Maps, Posters		
Transparencies		
Specimens, Models, Mounts		
Human and Community Resources		

Please complete and return to:
Maynard J. Iverson
7 Dickey Hall
University of Kentucky
Lexington, Kentucky 40506

ADULT INSTRUCTIONAL UNIT EVALUATION

-- A Questionnaire for Kentucky VoAg Teachers of Adults

PART I -- GENERAL INFORMATION

How many years of teaching experience do you have? _____

How many years have you taught adults in agriculture? _____

How long has it been since you have taken your last college classwork in agriculture_____; in education _____; (undergraduate, graduate, or non-credit course)? _____

What is the highest degree you hold? _____

How many teachers are in your department?_____

What age level students do you teach? (✓one)
a) ____high school and adult b)_____adult only

How many other units from the University of Kentucky have you used in your teaching during the past few years?_____

PART II -- UNIT INFORMATION

NAME OF UNIT EVALUATED:_____

TYPE OF CLIENTELE TAUGHT: _____Adult Farmer ____Young Farmer
_____Other Adults (please specify)_____

Average number attending class _____

Was the interest level _____high? ____moderate? _____low?

How many lessons did you use?_____ How many class periods?_____

Indicate any lesson you added or deleted_____

_____

_____

_____

Directions: Place a check mark (✓) in the appropriate left hand column to rate the following components of the unit based on your own observations. A ranking of 5 represents an excellent rating decreasing to a rank of 1 for poor. For the open-ended questions please write on the back if additional space is needed.

Unit Design

5	4	3	2	1	
					General arrangement of parts
					Appropriateness of format for teaching adults
					Length of the unit
					Usefulness of suggestions for using the unit
					Number of lessons
					Order of lessons

Specific comments:_____

_____

PLEASE CONTINUE ON NEXT PAGE

Objectives in the Unit

5 4 3 2 1

Clearly stated
Reasonable to reach in the allotted time
Relevant to needs of the adult learner
Specific comments: _____

_____

Technical Content

5 4 3 2 1

Usefulness of introductory material
Sufficiently detailed for direct use in class
Related to objectives
Divided into appropriate problem areas
Up-to-dateness
Accuracy
Reasonably complete
Specific comments: _____

_____

Suggestions for Teaching the Lessons

5 4 3 2 1

Appropriate information for the teacher to bring out
Appropriate items to be secured from class members
Suitable conclusions
Suitability of enrichment activities
Specific comments: _____

_____

Resources and Teaching Aids in the Unit

5 4 3 2 1

Up-to-date
Accessibility to the teacher
Relevance to the unit
Adaptability to the teaching plan
Specific comments: _____

_____

With what parts of the unit do you feel you need additional help?

____None of them
____Objectives
____Content
____Course organization and planning
____References
____Resources and teaching materials
____Teaching methods
____Other (Specify) _____

PART III -- GENERAL REACTION

Please indicate any other strengths and weaknesses that you have observed in the unit and any suggestions for improvement, revision, and/or implementation (use the back of this sheet if needed).

END